

Section Three

Significant implementation issues

The following section looks at two issues that are significant for UNE in the implementation of any market based change. The first is generic to any change and focuses on the issue of how to get staff to successfully implement change. The second is specific to this analysis and looks at the critical issue of the internet, its importance and what general options the university has with respect to how it uses it and importantly how it facilitate its student's use of it.

Staff/ internal markets

In effect, internal staff form some of the capabilities of the organisation and as such they fit into the production processes of the university. Those processes relate to the skills and tools that the staff bring to the production process, the consequence of this being that change affects the production processes. That is, you cannot change one aspect of the product without affecting the production processes that surround it. If you implement change then the whole process that surrounds what has been changed must also be changed.

If this is analysed with respect to the Level of Completion Model then what emerges is that often change is not implemented because the staff themselves do not have the capabilities to change the processes. That is, they do not have the skills to conceptualise the changes nor the tools, time, motivation or the other capabilities necessary to implement them. Often implementation is also hindered by the presence of capabilities that would have to be discarded to adopt new processes.

Implications and recommendations

If the university is looking to differentiate itself in an undifferentiated market then it can be assumed that there will necessarily need to be changes in the way that the university does some things. Staff must implement these changes. The problem report highlights the fact that staff already feel under pressure and are unlikely to want to initiate or undertake change. Given that staff are already having difficulty in implementing change it could be assumed that the capabilities are not there to put in place whole new processes. That is, one of the reasons that staff do not succeed in implementing change is that the change is embedded in a whole process. To deliver that change the whole process has to be altered and the staff member may not have the capabilities in the form of skills, training or tools to conceptualise the process change and then implement it. To overcome this the completion continuum theory suggests that the university has a number of options.

It can let the employee do it themselves, which may well fail if they do not have the capabilities to achieve it, or it can move up the continuum and do more for the employee. This suggests that UNE will have a greater chance of having change adopted if it moves up the completion continuum and helps the staff to conceptualise the total process change and provides them with the capabilities to implement it. That is, if it has a product that is rich in process attributes that is aimed at the internal staff market. This means that UNE should look to do more with respect to conceptualising and implementing the new processes for the staff. This would include training in skills, the provision of the new tools required, the freeing up of time required and the provision of the other capabilities required to implement and run the new processes as well as disposal of old capabilities.

If this is analysed using the Goods and Services Production model then the solution lies in a high service component product. As all production processes are to a degree idiosyncratic the adoption of them will require customisation. This can only be achieved through service. Goods production is vital in terms of tools, bundled service flows but training in the use of the tools and capabilities is vital.

Recruitment is also important in this process. It should focus on importation of the new skills to form the capabilities that are required. Change assumes new processes. New processes assume different capabilities. The university can either aid the staff in developing those capabilities or can import these new skills and knowledge through the recruitment process.

Internet adoption strategies

Given the powerful nature of the technology to deliver higher benefits at lower cost there seems little doubt that the internet will be a major distribution channel at some time. The ability to lower costs and increase benefits for both internal and external students together with its ability as a tool for competitors to significantly challenge for both internal and external markets means that UNE really does not have any choice but to develop an internet model at least as attractive as their competitors. Given that all universities are looking at this technology to create a competitive advantage and given UNE's internal financial and administrative position it will be difficult to develop a competitive advantage with respect to it.

A competitive advantage may be difficult to establish with respect to the delivery of outcome attributes. However, there is scope with respect to process attributes that aid the student base to easily migrate to its use. That is, there is a possible short term strategic advantage in developing a product that contains a high proportion of process attributes and in so doing aids the migration to the internet for both internal and external markets.

This is likely to be attractive to the market. Being such a profound innovation most users will not have the capabilities to utilise it. Those capabilities comes in the form of skills, tools, infrastructure, other materials and time. In dealing with this the university has a number of options that relate to how many process attributes it includes in the product. It can deliver a product low on process attributes and in so doing relies on the consumer to develop new processes, skills, tools and the like or it can aid them in the process by doing more for them in the product offering itself.

Letting the consumer establish the processes themselves will inevitably lead to slow migration and run the risk of competitor attack. One of the key reasons for this is that a lot of people do not have the skills or time to re-establish the processes and so will remain with the processes that they already have, rejecting the new technology. One way around this that will aid the migration to the internet and make UNE a more attractive proposition is to provide a very complete product in terms of process attributes to the consumer so that they do not need to develop the skills and tools. This would come in the form of very user-friendly systems, extensive support services, cheap access to infrastructure (computers and the like) and a range of user-friendly training programs. Given the nature of the technology, the extent of new processes that have to be developed and the likely difficulty that the market will experience in developing the processes that lead to adoption themselves, the university that makes it easiest for the student to do so will undoubtedly have a competitive advantage. That is, given two options, in circumstances where new capabilities are required consumers will opt for the one that contains more process attributes and so does more for them. They will choose UNE as a provider if it helps them to use the internet.

It should be recognised that this competitive advantage will be short lived. Once students have migrated to the new technology and established the appropriate processes they will look for a product that has fewer process attributes and so is lower on the completion continuum that gives them greater control over the outcome.

Section Four

This last section looks to summarise the preceding analysis to address the question of whether it is possible to differentiate universities and if so what is UNE's point of differentiation. It will also look at whether that differentiation can be applied across the university directorates and product types and what implications that has for UNE's brand.

A CVP that covers the university

The preceding analysis clearly highlights that there are many points of differentiation within the university sector. The different nature of the customer bases, the different access of the universities to a student base close at hand and the individual university's approach to delivery all mean that each university is confronted with a unique marketing situation. How they have responded to that unique situation has already differentiated the market, regardless of whether they perceive it that way or not. Not only are universities largely differentiated at present but there is good scope to further differentiating them in ways that are meaningful to their own customer base. This can be done by manipulating service and process attributes in line with customer demands and the university's position within the wider competitive environment.

UNE, in particular, is at present differentiated in the market and has available to it a positioning that is consistent across not only the product types but also internal directorates. While the analysis of the different product types highlights that UNE does compete in vastly different markets and with products that differ significantly in their content, there are a number of factors that are consistent across all of the divergent markets and customer cohorts and which therefore form a logical CVP and brand position. In all markets the analysis highlights that for a number of reasons it would be best if UNE delivers a product that is high in service content delivered in person and that cannot be delivered over the internet. Such service content would focus on facilitating customisation and process enjoyment. In addition, it has been argued that the product delivered in all markets should be high in process attributes that make it easier for the student to achieve the realisation of the outcome attributes. While the nature of such process attributes differs between markets, the high level of support provided by UNE is consistent.

This position is equally relevant for internal undergraduates, for research postgraduates and for international and short course students. Similarly, this position is of equal relevance to the internal markets of staff and directorates. For this position in the market to be realised, UNE staff will need to implement significant change and maintain high service and process levels to students and staff alike. This can only be achieved where they in turn are supported through service content delivered within a product high in process attributes. The fact that the same strategy is recommended for the both external and internal (staff) markets suggests that the positioning is meaningful and provides a basis to enable UNE to respond to all marketing situations in a consistent manner. Therefore, this analysis suggests that UNE's brand position should be one of highly personalised service delivered in person that leads to a customised product that is enjoyed as a process in itself. And that the total product is one that is designed to make it easy for students to achieve their goals. They should perceive that UNE will help them in the achievement of their goals.

5.2.3. The University of New England Case Study. Part C.

Report from Ian Olton on the utility of the analysis

Introduction

This paper is a response to the report provided by Roger Epworth titled *Marketing Problem Analysis University of New England*. In particular I aim to answer the following questions:

Did the report help in explaining the situation?

Did the report help in the development of tactics and strategies?

Has there been any action because of the report?

Did either or both of the models enhance my understanding of the concept of product?

Did either or both of the models improve my understanding of how others view the construction, *product*?

Overall impressions

Initially the models were a challenge because they explore the definition and nature of a key element of the marketing mix—product—in a way that is very different from the standard marketing approach. It requires a marketer to develop a different mindset and the amount of learning that was required was unexpected. Having said that, the two models were readily understood conceptually, but as with all things new, they required some effort to consider from an application point-of-view.

The initial difficulty experienced could easily form part of the power of this new approach. Other so-called new approaches have been an articulation of activities and insights that marketers have already discovered and are therefore easy to

comprehend and incorporate. This proposed approach is genuinely new to me. Part of the advantage offered by this approach is the effort that is required to understand and apply the methods. The lazy marketers will not make the commitment.

My overall impression is that the methods used are excellent analytical tools and the report gave me the opportunity to look at the situation from a different perspective—very valuable. It enables the marketer to conduct an analysis at the desktop before embarking on any research. The outcomes from the analysis would then be able to be incorporated into any research that is commissioned.

A second significant impression is that although the models are straightforward conceptually the application of these models to a specific situation does not seem straightforward.

The method for developing a strategy is now well established. The proposed new definition of product and the two supporting models offer a different perspective to be considered during the development of a strategy. In fact, the perspective offered can go beyond marketing strategy to organisational strategy.

The proposed new definition of *product* has a conceptual foundation that could assist with internal communication and thereby assist with making the necessary changes. However, there is a risk that the new jargon and theory will distract from the current fundamentals of marketing theory.

The extended definition of *product* is expected to be very useful. The new models provide a theoretical framework to assess the potential value provided by any product. Any hypothesis concluded could then be tested using market research or other market testing methods to determine if the price / perceived value trade-off is appropriate. This extended definition of *product* could also aid in the development of internal processes and the dismantling of operating silos because

it does not examine the service or good elements of the product. That is, the product is treated as a whole and those responsible for the different elements of the product will understand their role in delivering the whole product.

Furthermore, by not moving to the micro-product level many of the issues that re-enforce the silos are avoided, for example the different degree disciplines are not pitted against one another.

Positioning was addressed from a very different point-of-view. Any selected position is only of value if the market holds it to be so and if the portion of the market that holds this opinion is large enough to warrant the effort. Therefore, the conclusions from the analysis would need to be tested first with market research and then with the market.

The theory presented does not seem to be able to co-exist with the standard definition of the marketing mix. It can be used for strategic and tactical marketing purposes, but it changes the nature of the relationship between price, place, promotion and product.

Did the report help in explaining the situation?

The report did help in explaining the situation. In particular it was of assistance with the following.

Providing a framework to examine the different products. The product range includes vocational and non-vocational degrees, undergraduate and postgraduate degree programs, at the postgraduate level coursework and research degrees, and short courses. This product range is sold to many different national and international markets.

Greater clarity was reached because of the examination of the whole product—not just the academic product. When our product is defined as preparation for a career, as many of our vocationally oriented students see it, then the outcome can be placed on the Completion Continuum. Using the Level of Completion Model the additional activities that enhance a student's employability can be considered as part of the whole product, clearly establishing what the University needs to deliver. Cross checking this with the Services and Goods Production Model means that the University can establish the best mix of services production and goods production, which clearly establishes how the University should deliver its products.

The fundamental proposition stated in the Problem Report is that the University must match its CVP with its Business Focus. That is, the University must make sure that the organisation is set-up to be able to meet the promise presented in the Customer Value Proposition. A solution to the fundamental proposition is presented in the report.

A greater understanding was gained about the situation within UNE from the report. The role of the academic, the view of management and the difficulty for both parties was made clearer. Furthermore, a way to proceed was suggested.

I concluded from the report that there is likely to be a preferred point on the Completion Continuum for most markets at any particular point in time. Therefore, from a strategic perspective this new theory will assist and re-enforce first mover advantage. However, change is now a constant and a marketer must track the changing social trends or technology that can lead to a new opportunity by changing the mix of process attributes. Therefore, the analysis conducted may have identified an opportunity for UNE.

Assistance was provided by the report with better understanding the threat of the Internet. The capacity of the Internet to change some of the fundamental principals of the industry was always clear. However, the report shows that will reduce or remove any University's capacity to capture and hold a competitive advantage using the Internet.

The risk presented by the Internet to UNE was well presented in the report. The reports states "... the internet is likely to make UNE's position in the external market uncompetitive and undermine the competitiveness of the institution as a whole." This is a significant finding that is an extreme risk to UNE.

The nature of the analysis is such that the competitors were not examined.

Did the report help in the development of tactics and strategies?

The predictions made by the models were more readily believable because the fundamental premises of the models are so natural, readily acceptable. This strength is expected to assist internal communication and with creating change.

Although the report did not develop a brand strategy it did identify certain fundamental hurdles any brand strategy will need to overcome. This clear insight is of assistance in developing the brand strategy; for instance the issue of the total price for internal students is also a perception issue. Is it possible for a brand strategy to turn this negative to a positive? The establishment of a brand strategy was not part of the Problem Report although by focusing on determining the primary means of differentiating the University the core of the brand strategy was expected—and was delivered.

UNE has only very recently completed a Strategic Plan and we are now reviewing the Marketing Plan. The work presented in the Marketing Problem Analysis

University of New England Report will be used in the development of UNE's new Marketing Plan.

The examination of innovation through the two models is expected to be of use by, among other things, giving a reference point and clear objectives to staff about the type of innovation that is wanted.

The report is also assisting with the development of a Directorate Plan and the underpinning processes that will be used by the Directorate.

Segmentation: by researching the total price paid by different consumers and matching the process attributes the different consumers will need for the different products it will be possible to identify gaps in the market. Segmentation must balance the needs of the internal operations of the Directorate and the University against our need for increased understanding of the different segments. This will be examined and therefore this analysis may have a significant impact on the final marketing strategy adopted by UNE.

Contrast: I found that while trying to understand the implications of this theory I was contrasting it against my understanding of the standard marketing process. This contrast process was valuable as it forced me to think about the fundamentals of marketing, once again.

It is expected that this report will be of assistance with forming the tactics necessary to build a stronger working relationship with the International Office.

The examination of the Internet demonstrated how the theory could add value by identifying a potential opportunity that could provide UNE with a short-term competitive advantage.

Significant value was provided by the report from its examination and conclusion about the fit of the Internet with UNE's positioning and CVP. The conclusion reached is being used as input in the development of UNE's marketing strategy.

Has there been any action because of the report?

Without having any proof of the validity of the models, market research would be necessary to lower the risk to an acceptable level before any strategic action could be finalised or taken.

If possible, it is my intention to conduct a project with the author as soon as possible to investigate implementing the findings of the report—a Differentiation Project.

The Vice-Chancellor has used the report as an input into the University's strategic planning process. At a recent forum for managers of the University the Vice-Chancellor stated that it was reassuring that an independent expert analysis had been conducted and that it had arrived at the same conclusion she had.

Personal selling is only now being introduced to UNE and the purpose and supporting processes will be clarified and developed with the additional understanding obtained from this analysis. The additional new insight gained will enable the salespeople to be trained in the processes that they will need to impart to intending students. They will become part of what is provided to our students. Although this is a short-term advantage, it is one that could be levered into enhanced brand loyalty.

The report will be used to by-pass some of the discovery process that is necessary in new strategy formulation. From a marketer's point-of-view the situation within UNE is poor. The quality and quantity of appropriate information is poor and the will to collect what is needed is only now forming. This analysis provides us with the opportunity to focus the market research on a set of hypotheses and by-pass the discovery work that would otherwise be necessary to develop the hypotheses.

The Marketing and Public Affairs Directorate is currently undergoing significant change as it has recently been restructured. New positions have been created and recruitment for the positions has started. Therefore, the Directorate has not had the opportunity to act on the report findings, yet. It is expected that the report findings will have an impact on the following areas:

UNE Marketing Plan;

Directorate Plan;

Market Research: CVP, positioning, segmentation – what are the abilities that currently exist and are there any unserved gaps? Determine all the issues considered by the market as part of the price;

Determining the initial objectives for innovation;

The development of the directorate processes;

Training in personal selling and relationship building for our new staff and clarify the role of supporting activities eg. Process training for new technology for the different segments;

Enable communication that is not divisive, assist with managing risk because of the strong foundation of the theory;

Help frame the core message for promotion from the proposed positioning and be an additional input into the creative communication process;

Input into Brand Strategy: it assumes the changes that need to be made for someone to attend UNE on-campus are viewed as a negative—this must be verified. If this is true then the Brand Strategy could accept the challenge of recasting this negative into a positive.

Price is treated in a much stronger way than normally. If the theory is correct then the price to consumers could be reduced while maintaining the same dollar charge rate.

Product Development: the parts of the product that are not academic are identified and are able to be developed.

Did either or both of the models enhance my understanding of the concept of product?

My understanding is that both of the models form one new theory of product and it is from this perspective that I have been considering the analysis conducted and findings reached. My understanding of product is now enhanced. It goes beyond meeting a need to meeting a need within the users capability. This approach both broadens and tightens the definition of product. It broadens the definition because we now include the users capability, situation and available resources. It tightens the definition of product as the marketer is now able to better match the needs of the customer, the customer's situation and the organisations product or solution.

I expect the proposed definition to be of significant use in determining customer value. If all products are solutions that must be of more value to the customer than the price, then better understanding the customer's situation must improve an organisation's ability to provide value.

The link between product, innovation and product life cycle could also be enhanced by the proposed new construct of product. If a product's life cycle can be extended by innovation, as I think is the case, then the theory should better enable the marketer to forecast where innovation can be applied successfully.

Did either or both of the models improve my understanding of how others view the construction, *product*?

My understanding has been improved by my exposure to this theory. The concept of product is often discussed as a solution to a customer's problem. The new theory supports the solution perspective well. If I aim to provide a solution to a customer then I must do so within the confines of her/his situation. The additional value provided by this theory is the capacity to systematically group the diverse range of customer situations in the market to a number of sub-sets. The result is an improved understanding of how the different customers must view the product.

5.3. Case Study Two

5.3.1. Ozflorex case study. Part A.

Problem report

Executive summary

Ozflorex is an Australian owned company that is looking to introduce a new business and technological model into the florist industry. These models look to facilitate contact between wholesalers and retailers and to provide the e-commerce backend of the industry. Their main marketing problem is getting florists to sign up for the service either because the product does not as yet meet their needs or rather it has not been effectively communicated to them.

Industry related background

While there are three major levels in the channel leading to florists, they being the flower grower, the wholesaler of flowers and accessories and the retailing florist themselves, this product and the ensuing analysis deals only with the interaction between wholesaler and retailer within the Australian market.

At present the interaction between wholesaler and retailer is largely characterised by well-established relationships between the retailer and one wholesaler. Consequently most florists have little information on different product offerings and there is little price-based comparison. In this way the power of the supplier (wholesaler) is strong. This is particularly so in regional areas where retailers do not have access to other city-based wholesalers or flower markets.

The retailing industry is also characterised by low inventories requirements, which in turn influences the composition of the industry. The low inventory requirements reduce the barriers to entry and exit resulting in a high proportion of florists being small and lacking business skills. This is reflected in a high churn rate of around 20% a year.

The high level of perishability of the product also means that retailers generally order small amounts of flowers weekly thereby reducing the organisational skills needed and lowering cashflow requirements. As a result of this non-business like operators tend to last longer than in other industries.

In addition many florists see the business as a second income stream with there being a good proportion who have significant outside interests such as family which take up much of their time and thought. There is also a tendency to see themselves as artists rather than business people and make business decisions accordingly. For example, they tend to price poorly, adding flowers at no additional expense for artistic reasons.

The high degree of loyalty to relationships and the relative small size of the industry also mean that personalities of individual players in the industry can often be significant.

While a desire to not have to think about the business end of the operation is a driving force behind the industry's inefficiencies, the provision of credit by the wholesaler is also a strong adhesive factor binding retailer and wholesaler. This acts as a barrier against developing other relationships or shopping elsewhere.

In effect, retailers are looking to minimise their effort with respect to business relationships. Many survive on low cash flows and not much planning. For these reasons they rely heavily on the credit provided by wholesalers. It is, in effect, a significant barrier to exit from the relationship. They have a relationship with a

provider who extends a line of credit, they are more interested in the artistic side of the business, they are too busy to think about it anyway so there is no reason to change or look elsewhere. It is the view of Ozflorex that these factors have contributed to the retail end of the industry being quite inefficient.

The product

The product that Ozflorex is looking at introducing into the cut flower market looks to facilitate the relationship between wholesalers and retailers. It is structured as a subscription service where both wholesalers and retailers must subscribe to the service to be included.

There are two main components to the service.

On-line information and ordering

Wholesalers who subscribe to the service will make available through an Ozflorex designed and operated Internet site information on their product offerings.

Retailers who subscribe to the service will then be able to access the product offering information of all participating wholesalers and then through the site order on-line from as many of the wholesalers as desired. In this way retailers will be able to make up an order that may include products from numerous wholesalers.

Ozflorex will then account for all purchases a retailer makes and send one bill to them, regardless of how many wholesalers they use.

Similarly, the Ozflorex system will account for all the purchases made from each wholesaler and send one payment to them, regardless of how many retailers have bought from them.

Guaranteed credit rating for florists

To facilitate this Ozflorex will provide a credit rating for all florists in the system, guaranteeing payment to all wholesalers. That is Ozflorex will pay the wholesalers themselves and then recoup that money back from the retailers. In this way it moves the risk of delinquency from the wholesaler to Ozflorex.

Commission based pricing levied on wholesalers

For this Ozflorex will get a commission on sales. The wholesalers will be charged based on the value of transactions and that commission will be taken from the payment sent by Ozflorex to the wholesaler. In this way they pay only for what business they receive.

Benefits of the service to wholesalers and retailers

From the wholesaler's perspective this service provides them with access to a wide range of retailers, guarantees the payment from those retailers and takes care of the e-commerce and accounting backend for them.

In terms of the benefits delivered to wholesalers, the systems improves the cashflow of the business through lower dependency on travelling salespersons, lower levels of bad debt, administration and paper catalogue costs together with lower overdraft requirements.

From the perspective of the retailers the credit system and increased access to information will increase their access to wholesalers. This should improve their product offering and reduce costs through lower prices brought about through greater competition.

The business model itself is based on a similar model running in the second-hand car industry in Western Australia. This model has proved to be very successful in that environment having been able to secure around 36% market-share.

Competition

There are no direct competitors for this type of service. However, there are a number of competitors in related services that pose significant threats.

Ozforex's parent company Petals is primarily a relaying service. Relaying services facilitate retailer to retailer interaction by relaying orders for flowers that the florist can not deliver, primarily because it is outside of the florist's geographical range, to other florists who can deliver them. While relaying services facilitate retailer to retailer interaction and not wholesaler to retailer interactions they do have a significant business relationship with florists. As florists have few such business relationships their relationship with their relaying service is significant.

In the relay service industry the company Interflora has dominant market share with between 60% to 70% of the market. Their dominant market position is further strengthened by a technological link with retailers who place relay orders via an Interflora Intranet system. A lot of florists have a significant financial investment in this system, which is best paid off through use of the Interflora service. The dominant market share of Interflora together with the established technological relationship that they have with florists means that Interflora has the benefit of a time lag in which to wait and see before embarking on their response, thereby increasing the competitive threat they represent.

Much of the 10% of the relaying service industry that Petals has secured has come at the expense of Interflora. This has resulted in Interflora becoming competitor focused.

Ozflorex is therefore vulnerable in the implementation stage and will need strategies to counter this significant threat.

In addition, there exists an Internet based relay service operating out of Brisbane. While they have only a small market share of the domestic industry they do have a greater Internet presence than Petals.

The strategic role of the product

The strategic role of the Ozflorex product needs to be viewed within the wider organisational perspective of the parent company Petals.

The presence of a dominant competitor in the form of Interflora, with a firm competitor focus, means that it is difficult for Petals to gain greater market share whilst the relaying industry is structured as it is.

There is therefore a need to break the present market structure dominated by Interflora.

If Ozflorex can be the first mover in the development of electronic relationships between wholesaler and retailer they will own the business model for the industry. The development of an electronic relationship with Ozflorex provides an ideal launching pad for the development of an electronic relationship with respect to the relaying services also. That is, once florists are used to dealing with them with respect to wholesalers they will be more likely to use them for relaying, thereby breaking the hold that Interflora has over them. This is likely to translate into greater market share for Petals. This migration is likely to be greatly aided by the breakdown of the traditional wholesaler/retailer relationships and the greater propensity to shop around that this product facilitates.

In addition, the dominant position of Interflora with respect to the market share of the parent company means that revenue growth is effectively stalled for the parent company Petals. Ozflorex is therefore an attempt to diversify the revenue stream of the organisation as a whole. Given that the wholesaling industry is around five times the size of the relaying service industry such a leapfrog strategy has the potential to increase revenue streams significantly.

Strategic risk

The major strategic risks that Ozflorex face are twofold. The threat from Interflora is significant and it cannot be determined whether that threat will be realised until late in the day.

Operationally, the greatest threat lies in the delinquency with respect to the credit rating. While the model relies on Ozflorex covering the cost of retailer purchases risk is perceived by Ozflorex to be low. Credit checks to enter the system will reduce delinquency as will the threat of being excluded from the system. Based on industry comparisons a delinquency level of 1-1.5% is expected.

Environmental factors that will influence the success of the product

Given the nature of the business Ozflorex believes that it is likely that the Internet will eventually become significant in the buying and selling of flowers and accessories. It is believed that within a few years, florists will purchase a majority of their flowers over the internet. While there is a potentially significant first mover advantage to be had in offering an internet service between wholesaler and retailer it is clear that the industry is not prepared at present for the adoption of a new business and technology model that this would represent.

These barriers are evident for all types of industries and relate to the adoption of Internet technology in general. It is therefore unlikely that Ozflorex by themselves can overcome them. That is, while it may be clear that the internet will eventually become important in the industry that process will be gradual rather than revolutionary. The inherent conservativeness of the industry with respect to change is likely to exaggerate the slowness of the process.

Ozflorex believes that there is a strong argument to suggest that the greater use of the Internet by florists has the potential to alter the industry structure in a way that is beneficial to Petals while providing the need that will facilitate the adoption of the Ozflorex product. It is argued that the greater use of the Internet by florists will provide them with greater access to product information from a larger range of wholesalers. With more information retailers are likely to shop more between wholesalers searching for better prices and product offerings. This in turn may lead to the erosion of the strong relationships between individual wholesalers and retailers leading to the development of relationships that are more price and range fixated. This in turn, however, is likely to increase the efficiencies of the industry.

While the adoption of new technology is likely to lead to greater efficiencies there are a number of existing factors that are likely to be significant in determining the speed and scope of that change. One of the more significant factors that will influence migration and the breakdown of relationships would appear to be the role of credit as a barrier to the exit of relationships with wholesalers. While the internet would appear to be well suited to the industry and there would appear to be significant efficiencies to be had through its use the non business like nature of much of the industry means that many will not be interested in those efficiencies. Their dependence on a wholesaler through the line of credit extended may well exaggerate this lack of interest.

Secondly, migration to the Internet may well increase the work of florists. At present, the use of the fax has become dominant. This is particularly evident in the retailer to retailer aspect of the industry where for example the use of fax has gone from around 30% of business 10 years ago to around 70% now. One of the reasons for this significant adoption of that technology is that the use of the fax reduces the work of florists. In organising for flowers to be sent to another locality the customer writes out their order which then is faxed to a company who relays that order to another florist. With the Internet such ordering would have to be retyped. While this does not directly effect ordering through wholesalers it is likely to effect their adoption of the technology in general. That is, regardless of the efficiencies to be had in using the Internet, florists are likely to continue to use the fax rather than the Internet in much of their business as it is easier and saves them time.

The problem

The problem that Ozflorex faces is how to attract florists to the service.

At present they have been able to attract wholesalers. While wholesalers remain sceptical of new models, it is believed that the “pay only for success” model that Ozflorex runs on has aided the sign on process.

At present, however, they are experiencing trouble convincing florists to be part of it. The lack of success in signing florists up suggests to the principles of Ozflorex that the product offering is not attractive enough. There is a perception within Ozflorex that the product as it stands has not addressed the needs of the florist and that therefore the product offering has to be made more attractive in one way or another.

Alternatively, the problem may well be in how they communicate why they should use it. Or it could be a combination of both factors. In addition, the nature of the industry and those in it means that retailers tend also to be sceptical of new models and are in general uninterested in pursuing new models that promise greater efficiencies. In effect the difficulty is that the service represents a new business model based on a new technology model and Ozflorex have not as yet figured out how to attract florists to it.

The migration to the new technology of the Internet poses a problem in itself. As highlighted this migration may well be slow. In addition, for Ozflorex to gain a hold Florists will have to invest in new computer based technology, the Interflora system being unsuitable for the purpose. Given that many have a significant financial investment in the Interflora system which for many has not been paid off, Ozflorex has the additional problem of getting florists to invest significantly in new technology just to access the service. This is likely to be made more difficult by the lack of interest in business innovation that characterises the industry.

What has been done about marketing it

The business and technological models have been developed. The web site that supports both of these is also up and running. A number of wholesalers have been signed up.

The likely slow migration to the Internet by florists together with the desire to take advantage of the first mover advantage has resulted in Ozflorex implementing a two-phased implementation strategy. The information and ordering system has been separated from the credit rating system. While it is possible for florists to take advantage of both systems it is also possible for those who are not interested in migrating to the internet system to use the credit rating system to gain access to a wider range of wholesalers.

Some thought has also been given to how they segment the market. While it recognised that the segments of interest are multi-dimensional, Ozflorex is looking to initially segment their market geographically.

City based florists generally have greater access to a wider range of wholesalers through their close proximity to them. This means that the access to information aspect of the service is inherently less attractive to them. Regional florists, however, are geographically isolated from wholesalers and therefore they are more reliant on their existing relationships. The information and relationship building aspect of the service is therefore likely to be more attractive to this segment of the market and so this segment will be targeted initially.

In addition, those florists with a good credit rating are an obvious first choice as are those who use high technology and are interested in innovation.

As one of the characteristics of the industry is that smaller florists can tend to be hobbyists with small inventories who are less business orientated, larger more business orientated florists will also be targeted initially. However, these florists tend to be more business savvy and so tend to display more business to business tactics such as information search and price based tactics. The system therefore offers them less efficiency gains. Also the main problems of attractiveness of product and effective communication strategies have also been explored.

One avenue that has been pursued with respect to making the product more attractive is the development of a reward package. This is a component of the Western Australian example, which has in that context been effective in making their product more attractive.

With respect to communication, Ozflorex has opted for a direct mail approach.

Good and bad aspects of the marketing effort

To date Ozflorex has not been successful in addressing their most pressing problems. While they are exploring reward schemes as a way to improve the attractiveness of the system to florists and while the Western Australian example suggests there is good scope with this tactic they have been unsuccessful in getting access to a reward package scheme. The larger more attractive schemes such as those run by the airlines are uninterested because of the small scale that this would represent.

With respect to their communication problem the size of Ozflorex once again has hampered their progress. The Western Australian model, on which this is based, relies heavily on a large personal selling team to communicate and promote the system. The size of Ozflorex, however, prevents them from establishing such a team. It is for this reason that the direct mail approach has been chosen.

While in the past the company has used direct mail to promote the Petals service with some success it is not clear whether that will be possible with respect to the Ozflorex service. While florists are used to the direct mail approach with respect to the relaying service and so are responsive to it, the development of a new business and technology model is likely to be quite different. There is no reason to assume that direct mail will be effective here. They may well need to see examples of how it works to be convinced.

5.3.2. Ozflorex Case Study. Part B

Analysis of the marketing problem utilising the proposed models

Introduction

The following report is written by Roger Epworth in response to the marketing problem report developed in conjunction with Scott Williams of Ozflorex. It represents the analysis of the issues contained within the problem report generated by the application of the level of completion and goods and service production models. The report is divided into three sections.

The first is a general overview of common issues. The marketing problems identified in the problem report are then examined in the second section. Finally, the models are utilised to identify Key Success Factors and generate marketing mix tactics.

Section One

A general analysis of the product, consumer motivations and competition

The nature of the product

The product consists of two new models, a new business model for wholesaler to retailer interaction and a new technological model to facilitate that relationship. As such the business model contains most of the outcome attributes of the extended product including, for the retailer, superior access to product and pricing information together with the accounting, ordering and other back-end function attributes (see figure (5.2.1)). These attributes are outcome attributes in that, in

realizing them, the retailer will gain greater efficiencies and time-savings in their operation. For the wholesaler, the business model contains such outcome attributes as access to a wider range of retailers as well as efficiencies that result from the more efficient back end functions.

The technological model, however, is high on process attributes in that its primary purpose is the facilitation of the business model (see figure (5.2.1)). Process attributes contained within the technological model include the ability of the technology to provide product and price information in a more convenient and cost effective manner, the ability to run accounting and ordering software in a convenient and cost effective manner as well as the ability to provide auxiliary functions that make the business model more easily adopted and then utilised.

Figure (5.2.1.) Outcome and Process Attributes of the Ozflorex Product

Outcome Attribute	Associated Process Attribute	What Process Attribute Does
Florists		
Better range	Internet database	Do not have to search out information themselves
Better prices	Internet database	Increased efficiency of search lowers prices
More efficient	Internet based	Does ordering functions for them, lowering ordering
Wholesalers		
Greater access to retailers	Internet database	Reduces amount of promotional activity required. Reduces skills, time and other resources necessary.
Lower delinquency/credit rating		

Issue associated with implementing the new models

The introduction of a new business model has a high extended price attached to it. This is due to the fact that a business model influences the very nature of an operation, affecting nearly all aspects of the business. The replacement of a business model therefore has implications for a wide range of related processes way beyond the specific processes contained within the business model. That is, a business model is embedded within a wide range of interrelated processes all of which need to be altered for the business model to be successfully implemented. This means that the cost to the consumer in adoption lies not only with the cost in replacing the processes contained within the business model but also in their rejigging of all the other processes that are influenced by that model to some degree.

For it to be adopted, therefore, the model that replaces it has to have outcome attributes that justify the considerable cost involved but also the appropriate process attributes that aid the consumer in implementing the changes. These process attributes need to relate to the existing capabilities of the target market. Where the market has low capabilities to conceptualise the changes, the tools and skills to implement the changes and the tools, skills and materials to run the changes the innovation cannot be adopted regardless of the attractiveness of the outcome attributes. So, for example, in this circumstance, even if the efficiencies to be had from the new model are highly attractive, if the capabilities to implement them are not evident amongst the target market, the innovation cannot be adopted.

It is necessary, therefore, to evaluate the capabilities of the two markets and ensure the process attributes match them. The problem report identifies that the two markets are characterised by differing levels of capabilities, the retail sector being generally significantly lower in business skills and time. This suggests that the product aimed at the two markets has to be different in terms of the level of process attributes or attributes that help the user, contained within them.

Process attributes and the retailer market

Taking the retail sector first, the low levels of efficiency and management skills evident amongst florists in general, together with their lack of interest in innovation in general suggests that the product offered to them would need to be very high in process attributes. In fact, this characterisation of the industry goes a long way to explaining why the industry is skeptical of innovation; they do not have the capabilities, including time, to conceptualise how to implement or to then run them.

Given the inefficient nature of the retail sector and the significant efficiencies that this model promises, it can be assumed on a general level that the main reason for the lack of adoption amongst the retail sector is that the level of process attributes contained in the product does not match their level of capabilities. The florists do not have the capabilities to use the product regardless of how attractive the outcomes are. This means that for the product to be adopted, either Ozflorex has to help increase the capabilities of florists or design a product that is easy enough for them to use, given their capabilities.

This conclusion is somewhat deceptive in that the proposed model is already significantly higher in process attributes than the existing model. What the model provides is for someone to take care of a higher proportion of business functions for them than is evident under the existing model. This model facilitates such functions as information search, relationship facilitation, ordering and accounting

functions many of which the retailer presently have to do themselves. At present, the low levels of capabilities evident in the industry mean that retailers are loyal to existing processes even though they are highly inefficient because they do not have the capabilities, including time considerations, to improve the processes.

This analysis strongly suggests that product modifications need to be made to the product aimed at retailers. These modifications need to aid the retailer in migrating to the new model. As outlined in the theoretical paper, the more profound the innovation the higher the level of process attributes required. That is, where a product that is new to the market is being introduced, it is best to do more for the customer in helping them implement the product and in realizing the outcome attributes.

Process attributes and the wholesaler market

The wholesaler market, however, has more readily adopted the product and from this it can be concluded that not only are the outcome attributes sufficient to warrant the change but also that the process attributes contained in the existing product are well matched to their level of capabilities. That is, they have the capability to use the product and conceptualise it within their existing business. If it is true that wholesalers are more professional, skilled and efficient than retailers then it can be assumed that they have greater capabilities than the retailers. This means that they would require fewer process attributes than retailers. The fact that wholesalers have adopted more readily than retailers supports this analysis and strengthens the argument that the markets require two distinct levels of process attributes that reflect the distinct differences in capabilities between the two sectors.

The conclusion to be drawn from this is that the product is well structured in terms of both process and outcome attributes for the wholesaler market.

The appropriate levels of goods and service attributes

The nature of the industry means that there is a high degree of perishability within the product range. In addition, the nature of relationships is highly idiosyncratic. This in turn means that any product that facilitates that relationship has to be able to provide a high degree of customisation. As both of these features are characteristic of service rather than goods production it means that service production is particularly important within the product. However, service production is more expensive and time consuming than goods production. This, coupled with the low business skills and high time pressures of the industry, probably goes a long way to explaining why retailers are happy to establish strong relationships with one provider. It is too expensive and time consuming to establish more effective practices particularly when the industry is so service orientated.

The internet (the new technology model), however, allows for the delivery of both good and service attributes at a significantly reduced cost. Nearly infinite goods production can be placed on the internet to be accessed at will by the consumer. In this context these would include product and price information but it would also be possible to place a whole range of other tools. Both process and outcome attributes can therefore be placed in goods form on the internet increasing the value to the consumer, in this case both wholesaler and retailer. Service attributes that could be included on the internet include the relationship facilitation, ordering, credit rating and accounting facilities. The high level of accessibility afforded by the internet, together with the power of applications, such as accounting packages that can be run over them, increases the level of mass customisation that can be achieved and reduces the cost to the provider, in this case Ozflorex. This means that Ozflorex can provide a product that is high in both good and service attributes for a cost that is significantly lower than the existing model. The internet, in effect, saves time and money and provides superior access to information.

The outcome of this is that the significant lowering in cost represents a profound change for the consumer in the nature of the product they can now afford. While they can now afford this far superior product it remains that they are unlikely to have the capabilities to initially use it and it is in facilitating this that Ozflorex's product needs to focus on.

In conclusion, therefore, the high level of service production in the form of customisation and perishability inherent in the industry, together with the low levels of efficiencies that have resulted from trying to facilitate such expensive production by a time and skill poor retailer base, strongly suggests that the internet is ideally suited to this industry and therefore likely to be significant within the industry at some point in time. The timing of that is related to when the industry players can develop the capabilities that are required to utilise the new model. Ozflorex can either wait for those capabilities to be developed or facilitate them through features in the product offering.

The technological model

The new technological model is an innovation in itself and so faces the difficulties that are evident with respect to adoption of any innovation. As the technological model is not as profound as a business model in that it is not embedded within as wide a range of processes, it has a lower extended price. That is not to say that there is no extended price. Whole ranges of processes need to be altered in order for a consumer to adopt. This means that the process attributes inherent in the total product have to match the capabilities of the customer base for the innovation to have a chance of success. That is, the features of the model as a product have to match the user's ability to use the model. Not only that but the product requires a higher level of process attributes at the beginning in order to facilitate the migration. That is, users are likely to need more help at the beginning as they are unlikely to have the specific skills or capabilities required. Given the significant efficiencies to be had from an internet based model it can be

assumed that the outcome attributes are attractive enough to create interest. This means that in terms of product development Ozflorex should concentrate on process attributes and in matching those process attributes to the capabilities of the two markets. Examples of the types of process attributes required may include access to cheap infrastructure, training and support. As is the case with the business model, the low level capabilities evident within the retail sector suggests that the product aimed at this sector should be higher in process attributes than the one aimed at the wholesaler market. This is in terms of ongoing process attributes as well as process attributes aimed at facilitating the migration.

Product conclusions

In conclusion, therefore, the product that Ozflorex is looking to introduce is basically well suited to the industry. The low levels of business skills and time constraints amongst florists, coupled with the high service (and therefore time and cost) component of the basic product have resulted in the present model being very inefficient. The internet, however, enables service content to be mass customised at a low cost to retailers thereby making a business model based on the internet inherently attractive. The adoption of innovation, however, has a high extended price largely due to the number and extent of processes that must be altered to accommodate them and so it is necessary to include a high degree of process attributes within the product to aid the customer in their adoption. The difference in capabilities evident between wholesalers and retailers means that while the level of process attributes may at present be adequate for the wholesalers it is likely that they are not for the retailers and therefore product modifications are necessary to make it easier for them to access and use.

Competitors

Ozflorex's major potential competitor is Interflora which at present only operates within the retail sector. There are a number of reasons why Ozflorex's pursuit of this model makes it unlikely that Interflora will be able to challenge their position. The retail market has low skills and high time pressures. This means that they will only migrate to a new model if it provides high efficiencies at a low cost and is very high on process attributes. That is, while Ozflorex will have to get it right for it to work, once it does work, the high process nature of the product and the low skills base of the market means that they will be uninterested in moving. It has been shown already that the low skills base means that retailers remain loyal to a model even if it is inefficient. This pattern is likely to be exaggerated where the model delivers greater efficiencies at a lower financial and time cost and where the process attributes included closely match their capabilities.

Where the process attributes are closely matched to the capabilities of the retailers there is little scope for Interflora to maneuver to provide a reason for movement. This is so even if their model promises even greater efficiencies. As has been shown, it is not the efficiencies that matter but rather the help that the model provides them in attaining those efficiencies. That is, the low skills base of the retailers creates a natural monopoly where consumers won't change once they have found a provider that satisfies their needs. This suggests that there is a significant first mover advantage to be had.

The fact that Interflora is within the retail sector only helps Ozflorex to maintain their position. Their capabilities relate to this sector. If they were to move sectors then they would have to develop whole new capabilities. This means that they could not just wait and then move. They would have to move quickly to give them the time to develop these new capabilities.

The fact that Interflora has established a technological link with retailers is to some degree significant in respect to the adoption of the model. Access to a computer is one of the capabilities that is required of a retailer to adopt the model. The low levels of profitability and cash flow in the industry suggest that retailers will not be keen to duplicate that resource. It would appear from this that one of the process attributes that is required within the product relates to access to the appropriate technology be it leased or given to them.

In terms of a strategy to break the industry structure, the successful implementation of the model does provide some basis for this. It has been shown that this grouping is particularly loyal to processes largely because the low level of capabilities prevents movement. This means that on one hand it will be difficult to break the existing industry structure, however, on the other the established link to Ozflorex is a process they will become loyal to also. This provides a logical and necessary link to help to facilitate movement. The secret with respect to the retailer-to-retailer market would, however, lie in providing a product that is well matched to the capabilities of the retailer. As these would be well known through the Ozflorex model and as Ozflorex's brand will be meaningful with respect to that level of process they are in a good position to develop and communicate such a product.

The main factor, however, will be whether or not Interflora's product does at present match the capabilities of the retailers. If it did not then the low level of skills in the sector would most likely mean that more rather than less process attributes would be desired. Retailers may want the provider to do more for them in their relationship with other retailers, in a similar way that the Ozflorex model does for retailer to wholesaler relationships. Developing a product higher in process attributes than Interflora but which closely matched their capabilities

would be the basis for breaking the industry structure. The internet, by profoundly increasing the utility that can be afforded within a business model, is a likely basis for an effective leapfrog strategy. On top of and in conjunction with the development of the Ozflorex model would be a very handy facilitator but is unlikely to be sufficient in itself.

Section Two:

Addressing the marketing problems

1 Signing them up. Is it the product or is it the communication? Direct mail or personal selling

As indicated in the above analysis, there would appear to be the need for some change with respect to the product aimed at the retail market. While the process attributes contained within the wholesaler product seem to be well matched to the capabilities of the market, the significantly lower levels of capabilities evident in the retail market suggest that greater process attributes that more closely match the retailer's capabilities are needed. That is, the product needs to do more for them. One particular area of retailer capabilities that the competitive analysis highlights as being significant is access to the appropriate computer technology. Other process attributes that are likely to be attractive to such a skill and time poor sector would be user friendly interface, a high level of support in usage, hands on training and coordination of the many functions. Time saving as well as skill and infrastructure replacing process attributes are likely to be attractive.

The loyalty to existing processes brought about by the lack of capabilities that enable switching means that retailers are unlikely to be on the look out for new models even if they do promise significant efficiency gains. This suggests that promotion has a significant role to play in prompting switching. For the same reasons, passive types of promotion are unlikely to be effective. This means that

pro-active customised and therefore service orientated promotion is likely to be the only effective form.

Most promotion is goods based in that the communication message is produced in isolation to the consumer before they enter the equation. This is true of television, radio, and print based advertising. It is also true of more direct mail type approaches. As it is produced as goods production before the consumer enters into the transaction it cannot be customised. This is significant with respect to this cohort. As they are low on business skills they are unlikely to have the capabilities to be able to use the goods based promotion to make their decisions. They would need communication that is customised to their needs and high in process attributes that helps them understand the message. The communicator would have to make it easy for them to see how the new model/processes would fit within their existing processes and deliver results. In this sense promotion would have to go beyond communication and become a process attribute of the product. It would have to add to the capabilities of the retailers in terms of skills and knowledge in order for them to see how they can utilise it. In this way and because it needs to be service oriented, promotion needs and should be ongoing rather than discreet.

This means that any promotion aimed at this sector would have to be heavily service orientated, that is, carried out after the initial contact with the florist and so be able to be customised to the individual retailer's circumstances. This conclusion is supported somewhat by the experience of the Western Australian car model from which the business model is derived. It was only after the promotion moved from heavily goods based to service based that the model was adopted. It is clear therefore that the model will not be adopted without a personal selling approach to promotion. The resource position of Ozflorex, however, hampers the pursuit of the resource intensive traditional personal selling approach. Other more cost effective service based promotional programs need to be explored.

Given the resource position of Ozflorex and the nature of the technological model, the one area that shows most promise is in respect to the internet. The analysis has already demonstrated that the internet can deliver mass customised service attributes in a timely and cost effective manner. It would therefore appear to be the most likely device. This in itself is problematic given that one of the capabilities that the retail sector lacks is access to appropriate technology and then skills in the use of that technology, coupled with the time and resources to develop and acquire the technology and skills. It has already been argued that they will not go out of their way to seek out and utilise promotion. This all seems to suggest that personalized promotional campaigns at the beginning are a prerequisite/precursor to any adoption.

If all this is put together the promotional campaign takes the following form. A promotional program that both communicates and provides capabilities in the form of skills and knowledge is required. That program needs to be heavily customised (service orientated) and ongoing. In its initial stages personalized selling strategies have to be pursued coupled with the provision of internet technology and the skills and knowledge to utilise it. Once that has been achieved the ongoing component of the program that focuses on greater skills development and support can be delivered over the internet. One of the key roles that the promotion would have to play is in demonstrating how the new model and technology would fit within their existing processes and how the efficiency outcomes that the model promises can be attained. In practical terms this means that Ozflorex would need to get access to technology that can be provided to the retailers at no or limited cost to them, that technology has to be set up for them in a very user friendly way that requires few skills to use, i.e. high in process attributes, then the retailers need to be taught how to use it with a particular emphasis on demonstrating how the efficiencies can be gained.

2 Reward schemes

Reward schemes are an outcome attribute rather than a process attribute of the product in that they do not aid the consumer to attain some other benefit. It has been argued that it is likely to be the provision of further process attributes rather than outcome attributes that will aid adoption. Therefore it would seem that there is a lower need to boast the outcome attributes of the product through a reward scheme. While it may well be true that the benefits of a reward scheme would be valued by the retail sector as an outcome attribute it is also likely that the product is attractive enough in terms of outcome attributes. All of this seems to suggest that Ozflorex would be better off concentrating their resources in providing more process attributes in the product particularly with respect to their delivery through initial service oriented promotional campaigns.

3 Two phased implementation program

While the rationale behind a two-phased implementation campaign is sound, in practice it adds significant complexity to the program and is likely to limit the program's overall chance of success. The two-phased program is driven from the recognition that retailers do not have the capabilities at present to enable widespread adoption of the technology model. However, the low level of skills evident in the sector coupled with the lack of interest in pursuing greater efficiencies suggest that the business model will be just as problematic in the adoption phase. If the program were viewed in totality then it would appear that the greatest chance of success would lie in pursuing the adoption of both models simultaneously. The business model is the most complex and has the highest extended price of the two models. It is also where most of the outcome attributes are located. It is therefore likely to be the one that is hardest to get adopted. This suggests that if more process attributes need to be included within the total program package they should be included at the time the business model is being introduced. The technological model is nearly all process attributes. It aids and

enables the retailer to achieve the efficiency gains (outcome attributes) that the business model promises. Therefore, these two issues suggest the provision of the technological model at the time of the adoption of the business model would aid the adoption process rather than hinder it. That is, the technological model is required to facilitate the adoption of the business model. Separating the two takes process attributes away when it has been argued that what the product needs is the addition of more process attributes. This suggests that separating the two undermines the chance of adoption of the business model and therefore they should not be separated. In practical terms, however, this means that Ozflorex has to overcome the lack of capabilities of the retailer that is hindering the adoption of the technology model. This once again comes back to their access to information technology and the skills and knowledge to utilise it.

There is one further reason why it is problematic to introduce the two models separately. It has already been argued that the retailer cohort is hesitant to adopt new models. This means that it would be difficult to persuade them to do so and that therefore that persuasion needs to be heavily service based and personalized up front. Getting them to do it twice is therefore doubly problematic. As is the case with the business model, the adoption of the technology model will require personalized service oriented promotion. Separating the two would mean that Ozflorex would have to double this type of promotion when resource considerations suggest that they should be pursuing strategies that limit rather than extend the amount of this type of promotion. In addition, as the technology model contains many of the process attributes required to make the business model easily adoptable, the promotional campaign aimed at the business model would have to deliver these types of process attributes and more. Ozflorex would have to conceptualise these new process attributes and then deliver them to them without aid of the cost effective internet channel. All this points to the conclusion that dividing the two implementations would undermine the chance that the business model will be adopted, increase the cost to both retailer and Ozflorex, entail significant more conceptual work on the part of Ozflorex and duplicate their

promotional effort. Even then it is unlikely to be effective. This is because, given the resource restrictions on Ozflorex, it is unlikely that they will be able to come up with replacement process attributes that are as effective and as cost effective as can be delivered over the internet. That is, given Ozflorex's resource situation and the capacity of the internet to deliver service orientated process attributes in a cost effective manner, coupled with the need to include more rather than less process attributes in the product, the dividing of the implementation process can be argued to fatally undermine the chance of successful adoption of the business model.

4 Strategic considerations: Interflora's competitive response and breaking the market structure

As outlined previously, the successful implementation of the two models will in itself safeguard Ozflorex from competitive response. The difficulty of getting the retailers to adopt the program is likely to delay any response from competitors as they sit back and see if any competitive action is required. This aids Ozflorex. The lead time in development and the natural monopoly that the lack of skills in the sector tends to create means that there is a significant first mover advantage to be had and that this advantage can be safeguarded by the time lag between introduction and competitive response. That is, given the time lag in response likely and the time that would be needed in developing a comparable product, Ozflorex should be firmly established before any competitive response could be initiated. This competitive position would be further strengthened to the point where competitors would be shut out by providing no basis to better meet retailers need through the development of a product where the process attributes closely matched the capabilities of the market. That is, a competitor's response that focuses on increased outcome attributes is not likely to be attractive enough to prompt movement, particularly when few process attribute improvements can be provided.

In terms of breaking the market structure, as has been outlined previously, this model would provide an invaluable basis but would not be sufficient in itself. A restructured retailer-to-retailer product would need to be developed that more closely matched the capabilities of the market than the competitor's offer.

Section Three

Key success factors: action items: practical marketing implications

There are a number of key success factors that would facilitate the adoption of the models. It would seem from the above analysis that the best chance of success in terms of adoption and safeguarding Ozflorex from competitive response would come from a one stage implementation program where the process attributes of the technology model were utilised to aid the adoption of the more outcome attribute oriented business model. For this to succeed a personalized service oriented and ongoing promotional campaign would need to be pursued. This campaign should be structured to provide process attributes that decrease the skills required by the retailers while at the same time increasing their capabilities in terms of skills and knowledge. For this to succeed and for the competitive position of Interflora to be overcome, Ozflorex would need to provide internet technology capabilities to the retailers up front and through a personalized and customised promotional campaign, make that very user friendly to reduce the level of capabilities that are required and then provide them with the training and skills to use it. To support this the product needs to be reviewed and more process attributes included to better reflect the level of capabilities of the market together with the time and resource considerations that will otherwise undermine the desire of this market to consider adoption.

Marketing Actions

Product

Ozflorex needs to increase process attributes that aid the retailer first in adoption and then in ongoing use of the model. This can initially be achieved through the promotional campaign that looks to both communicate and add process attributes. One key success factor in this respect is the provision of internet technology to retailers. Programs where access to cheap technology, perhaps through such avenues as reconditioned machines, should be pursued. In this way Ozflorex should look to provide the models almost complete through the technology and established programs that require little skill or other infrastructure to operate and then provide the skills and knowledge that is required through a customised promotional campaign.

Process attributes that could be included in the product include customised user-friendly programs, macros that enable few keystrokes, training and provision of information, strong computer support and ongoing help desk functions.

The development of a reward program that looks to deliver outcome attributes should be reprioritized downwards.

Promotion

Promotion should be heavily service oriented in that it is individually structured or customised to each consumer. The program should be constructed such that it provides not just communication but also process attributes. It should aid the consumer in utilizing the model through provision of training and demonstration of how the program fits within their established business processes and from there how the outcome attributes associated with increased efficiencies can be realised. While the initial phase of the promotional campaign would need to be traditional

personal selling, once this has been achieved an ongoing program delivered over the internet should be utilised to increase skill and other capability development and in doing so lock in the consumer. This can then be leveraged off to aid in the breaking of the market structure in a third phase aimed at facilitating the adoption of an alternative retailer-to-retailer model.

Goods based promotional devices such as print and electronic advertising or stand alone direct mail campaigns are not likely to be effective and should not be considered initially.

Price

The extended price to the retailer to adopt the models is significant due to the extended and interrelated nature of the processes that surround the models and that would need to be adapted to accommodate them. The low level of profitability and cash flow that characterise the industry and the lack of interest in efficiency improvements that result from the sector's low skill level strongly suggests that the product offered needs to reduce the extended price of the product rather than increase its value. It is for this reason that the reward program development is of a lower priority. The most effective way to reduce the extended price of the product is to include further process attributes that either replace the needs for skills, infrastructure and other capabilities or aids in the development of the skills and other capabilities that are required to successfully operate the models. A balance of both is therefore likely to be needed. The provision of the information technology and the accompanying promotion aimed at enabling them to utilise it, is significant here.

Distribution

The technology model represents the major distribution issue. It is what provides easy access to the business model. In this way it should not be separated from the business model because if it is an alternative distribution model would have to be developed and provided. Given Ozflorex's resource considerations, the ability of the internet to distribute the business model and then support that distribution in a cost effective and more effective way means that Ozflorex should look to roll out both models simultaneously, utilizing the technological model to support the business model. If the technological model is viewed as the main channel of distribution for the business model then it should have contained within it process attributes, that match the capabilities of the market. That is, the distribution model that is pursued by Ozflorex should be high in process attributes that aids the retailer to first adopt the model and then in its ongoing usage. In this way the distribution should be viewed as product attributes.

Conclusion

The above report looks to apply the two conceptual models outlined in the previous paper to Ozflorex's marketing problem as identified in the Marketing Problem Report. From here I asked the CEO of Ozflorex to consider a number of issues associated with those two models. Firstly, do the models generate greater understanding of what the problem is, what the nature of the products are and what the motivations of the consumers are with respect to those products? Secondly, do the models provide valuable insights as to what can be done to address the problems identified and market the product successfully?

5.3.3. Ozflorex Case Study. Part C.

Report of interview with Scott Williams on the utility of the Ozflorex analysis

Introduction

The following is a report of an interview between Scott Williams and Roger Epworth. It deals with Scott Williams' reaction to the analysis of the Ozflorex Problem Report. While the interview addressed a number of specific key issues (see attachment one for a copy of the questions) the format of the interview was semi-structured. The primary reason for the semi-structured nature of the discussion was to allow the respondent to articulate their top of mind reaction to the analysis as well as their prompted reaction to specific aspects of the report. This meant that the issues were addressed when they arose rather than in any pre-set way. For this reason the following report is structured around key themes of the discussion rather than as answers to specific questions.

Communication issues

It is fair to say that Scott found it difficult to read the report, both the theoretical paper and the following analysis. There were a number of key reasons that Scott articulated for this. Firstly, Scott believed the report was written in an overly academic way that was dense and that made it difficult to follow the logic of the arguments or to get a view of the whole. For this reason, and despite the fact that he approached the task with a good deal of interest and good will, he often found himself skipping over the reasoning and heading straight for the conclusions.

In addition, Scott felt the format of the report was not conducive to effective business communication. He would have preferred more of a business type format with executive summaries and more explicit business orientated conclusions. To this he added that he would have found it more valuable if the report had been more of a feasibility study, a report that advised him whether to go ahead with the project or not. He felt that the analysis presumed that he would go ahead and focused on what he should do to make it work.

The inability of the report in communicating the theory and logic behind the conclusions meant that Scott felt that he was unable to comment on the models themselves or on the logic that led to the conclusions of the report. He was unable to determine, for example, to what extent the conclusions flowed from the models or whether a third party could replicate such conclusions. This was so even after further discussion has made it “clearer what the value is to me now that I’m discussing it.”

As a result of the communication difficulties outlined above, Scott’s comments are largely restricted to his impressions of the conclusions and from there, by implication, to the models.

Weaknesses

Apart from the communication issues outlined above, Scott felt that the analysis ignored some of the key dimensions of marketing. These included issues such as Return on Investment issues and resource considerations.

In addition, Scott expressed the belief that certain aspects of the competitor analysis were naïve. He felt that the suggestion that the strategy outlined in the analysis would be sufficient to guard against a response from Interflora was a bit simplistic and ignored the effect that their strong brand and established

relationships with florists would have on the take up of a similar Interflora product.

Overall impressions

Laying aside these weaknesses, Scott stated that generally “I agree with most of it.” “I think the conclusions are accurate.” The analysis “arrived at correct and plausible solutions.” “I agree with what you arrived at.” The method seemed quite plausible and resulted in quite sensible and plausible solutions and so “it does a reasonably good job as far as I can tell”, “given that you had no previous contact with the two models.” “It does quite well.”

More specifically, Scott stated with respect to the analysis of the adoption of innovation issues that “you made logical conclusions there.” “I think that all those things are correct. That is quite valid I think.”

With respect to the analysis of competitive positioning, Scott stated that “I think that you are correct in positioning it. I think that is correct.”

Differences between this analysis and the way that Scott was thinking

There were a number of conclusions that were different from the way in which Scott was thinking about the problem. Primary amongst those was the role and importance of personal selling in the strategy. Scott stated: “The most surprising conclusion was the need for high service, helping people to use the system. That is something I didn’t expect”.

In addition, Scott stated that it separated the two issues of business model and then how that is facilitated by the technological model in a helpful way. Further to this it “identified interesting issues of uptake and propensity of uptake”. “It made logical conclusions there, chicken and egg stuff”. “I think all of those things are correct.”

From this flowed a discussion on adoption of innovation in general and what the model would contribute particularly in the “marketing chasm” between innovators and early adopters. I argued that the model provides a basis for understanding what factors affect adoption for early adopters, ie their capabilities to conceptualise and implement changes to their extended processes within which the adoption is embedded. In addition, it was argued that the model then provides tactics to overcome this, primarily through increased process attributes that helped the consumer adopt and a high level of service oriented promotion.

Scott commented that “ the final conclusions of that came through but the logic which led to that did not crystallise”. “ That is quite valid I think’. “To my way of thinking that is one of the main results of this work. To say at some further date, 1 year, 2 years, we’re going to have to invest a lot of resources in it. Then I can go backwards and say I shouldn’t start it.” “If you did that, that would be very valuable because I might not go down that path.” “To the extent that it can clear smoke two years ahead, that is extremely valuable, its easy enough to see the short run stuff, its harder to see the long term stuff.” “If you positioned this for that purpose I think it would be a very valuable tool.”

The other area where the conclusions or analysis were different to the way that Scott was thinking about it was in respect to loyalty schemes. The report contained the argument that the new business model was likely to deliver sufficient outcome attributes by itself and that therefore there was no need to deliver more through loyalty schemes. It was argued that, given the resource

constraints of Ozflorex, if additional attributes were added it would be best to add process attributes that aided adoption. This is because it is more likely that the main obstacle to adoption is the lack of capabilities to adopt rather than the attractiveness of the outcome.

This argument however was not clear in the report to Scott and led to a more detailed discussion of the issue. “I didn’t get that out of the report but now we discuss it I can see it. That sounds right and seems plausible”. “I would have rejected loyalty schemes anyway, but not for the same reasons you did.”

Another feature of the analysis that Scott found useful was the Completion Continuum. Scott stated that “one of the most interesting things I found was these sliders” commenting that the continuum was an “original bit of thinking and good. It was very helpful.” “The slider provoked, it made me think.” “As I was doing it I was thinking it would be helpful to have a number of these sliding scales on a number of criteria. By having a number of these sliders you could have an almost formula solution.” “If your methodology, and I think it probably does, lends itself to that, that distills right down to a spreadsheet, you would sell a million of them.” “I think that it would be extremely powerful, very interesting”.

Value of the models

According to Scott, “What it did was put some rigor around intuition”.

“The most valuable thing about this for a person who knows a bit about marketing technology, is that it provides a critical second opinion.”

Scott argued that what a business person would look for is an easy to use model or process that provided a logical outcome that prevented them from having to undertake more complicated analysis involving market research and consultancy. It would be a model that bypassed the need to get an expert second opinion. “The

hardest thing I find in business, without fail, is to get critical analysis.” “Most business people need a second opinion to see where their thinking has problems.” But, according to Scott, that second opinion is expensive, not there when you need it and relies on imperfect information gained from the principal. “There is a screaming demand for something that helps business people arrive at these sorts of things, to thin ideas out, how do I do it?” “Something that measures the advantages of a specific differentiator is very valuable,” “that gives insights into these sorts of things is very valuable.” “It would be valued highly, a process that enabled people to come to a critical conclusion.” “What it does is make a consultant not required”, “or it shortlists projects”, “or it draws weaknesses,” “gives you a measure of feasibility’ .” If this methodology can come up with another opinion it is very valuable.” However, Scott qualified his answer by reiterating that he was not sure that it was the model that was generating the insights, that his inability to grasp the nature of the models prevented him from stating that.

Was there evidence that the models provoked thinking beyond the Ozflorex context

Even though there was a significant communication problem there is evidence that Scott used the models to extrapolate to other contexts and gain marketing insights. Primarily, this was in respect to two main issues.

The discussion on the importance of personal selling/training in getting people to adopt innovation lead to a discussion of several case studies where such a model had been successful. On contemplation of the case studies, Scott commented that he “should learn from this (a number of industry specific case studies all pointing to the same conclusion) and I guess I just have, having said that.”

The second example of the models generating further thought is in respect to the value of continuums (sliders) as a basis for simplifying business decisions. As

Scott states, “As I was doing it I was thinking it would be helpful to have a number of these sliding scales on a number of criteria.” “By having a number of sliders, you could have an almost formula solution.”

Would Scott be inclined to implement the recommendations

Scott found the conclusions to be logical and plausible, however, there were a number of issues that would hinder his propensity to implement them. Firstly, Scott thought that the analysis focused too much on how to implement the program and not on his main concern of whether to implement the program. In this regard, he would have to decide whether to go ahead with the project before he could consider whether he would implement the specific recommendations. To some extent the models aided him by taking the conclusions and working backwards, “then go backwards and say I shouldn’t start it.” To an extent also, some of the conclusions Scott had come to anyway but for other reasons, such as was the case with loyalty programs. In the end, Scott stated that he would need to be confident with the process that delivered the recommendations before he would be confident in implementing them. As he was not confident with the process he could not say if he would implement.

Is it an approach that Scott would/could use routinely

For Scott, the inability of the report to communicate the nature of the conceptual models meant that he could not confidently state that he would use the models regularly. While the conclusions seemed logical and reasonable he could not be sure to what extent they came from the application of the models. However, with respect to this issue Scott stated that if the models were “plausible and could be retested against historical data, I would trust it to go ahead.” In addition, and as outlined above, Scott was of the strong opinion that if the models did as these models are argued to do, it would be very helpful to business people and would “sell a million”.

5.4. Case Study Three:

5.4.1. Ashdown/Pacific Automotive case study. Part A.

Problem report

Introduction

This report has been prepared based on an interview with Mark Grahame, National Marketing Manager for Ashdown. Ashdown is subsidiary of Pacific Automotive which run a number of autopart businesses in Australia and New Zealand at all levels of the distribution channel.

A description of Ashdown and the industry

Ashdown is primarily a wholesaler of auto-electrical components such as bulbs, starter motors, lamps and electrical switches. They on-sell components to auto-electricians and large organisational buyers such as mining companies and in a minor way sell directly into retailers such as Autobarn. While Ashdown is primarily a wholesaler it also reconditions starter motors for resale.

Ashdown is regarded in the industry as a one-stop shop. Their brand centres on their ability to source and deliver any component in a timely manner. Central to their product range are two brands, Bosch, with a range of around 6000 products and Hella, with a range of around 2800 products. These brands are positioned at the top end of the market in terms of quality and brand equity. In addition, Ashdown also on-sell after market copies of the top brands which they price at between 70-80% of the branded product. Ashdown is the major distributor of the Hella and Bosch brands in Australia and can be regarded as the market leader at the wholesaler level.

In addition to Bosch and Hella there is one other major brand, Narva, which competes in this market at a similar quality position. This brand, however, does not distribute through wholesalers going instead directly to market.

Current industry dynamics

It is fair to say that the industry is entering a period of instability. The technology on which the major brands have built brand equity has matured. While there is still a good deal of innovation in the industry there are now numerous manufacturers who can produce top quality components. These manufacturers are increasingly unprepared to enter into exclusive arrangements with the big brand companies, which has led to a proliferation of after-market (generic copies) capacity. In addition, the major brands, Hella, Bosch and Narva have saturated the distribution channels with their products, with the result that everybody in the industry now stocks them. This means that the market has become largely undifferentiated and the industry as a whole has begun to compete largely on price. This has had the effect of lowering the margin for the whole industry. As the market is growing only marginally at present the whole industry is under pressure to maintain financial performance.

The industry has responded to these pressures in a number of ways. Narva, entering the market after the other two major brands, skipped channels, bypassing the wholesalers such as Ashdown by means of a sales force who targeted retail, trade and organisational buyers. They subsequently shared the savings with their market thereby increasingly making Bosch and Hella products sold through Ashdown uncompetitive.

Bosch and Hella responded by lowering wholesaler and published retailer prices thereby lowering Ashdown's margin. Both brands have also instigated their own attempts at channel skipping, looking to bypass Ashdown.

Ashdown have responded to the dual threat of lower margins and potential loss of market share resulting from channel skipping by introducing a small range of after-market copies of the most fast moving Hella and Bosch range. These sell for around 70-80% of the branded product price but provide superior margin for Ashdown. As Ashdown accounts for a significant proportion of the business for these two brands this action has not gone unnoticed. Both companies are active in negotiations with Ashdown to circumvent the consequences of this brand switching.

The result of all these machinations is that the industry structure has become very complicated. No longer are there the traditional channel structures of manufacturer, wholesaler and retailer. Manufacturer and wholesalers are increasingly competing directly against each other while at the same time maintaining more traditional alliances. In this way while Ashdown increasingly competes against Bosch and Hella it also represents these companies' major distribution channels.

Brand switching issues

There are further complications with respect to Ashdown's brand switching actions. Ashdown's market, particularly their trade customers, is very brand conscious. They link quality to brand. One of the reasons for this can be linked to the nature of the automotive electrical industry. Up to 94% of the trade employs four or less staff and have turnovers of under \$300,000. As the nature of the product is so complicated to the end consumer they tend to rely heavily on the integrity of the auto-electrician. For this reason, word of mouth and referrals are of great significance. In addition, as a major component of the final cost is labour any defective component represents only a portion of the problem to them. They must negotiate with the supplier to recoup labour costs as well. That is, auto-electricians are careful of what they buy because they don't want to replace it.

This accent on quality tends to be supported by the fact that the price of the component is passed on to the consumer with there being little consumer awareness and so demand for after-market copies. All of this adds up to the fact that it is important to the trade that they have reliable components as the downside in terms of cost and potential loss of business is significant. This has tended to exaggerate the brand loyalty of the trade to those brands known to be of consistent high quality, in Ashdown's case Hella and Bosch.

This trend is further exaggerated by the nature of the original equipment market. New car manufacturers enter into alliances with brands such as Hella and Bosch to design their lampware and such. In return they fit their products to their range of vehicles. This has the consequence of increasing brand loyalty towards the major brands as trade look to replace like with like, thereby reducing the risk they experience. This has the consequence of increasing the difficulty of the brand-switching task being carried out by Ashdown. At the same time, Ashdown is uninterested in pursuing this market, as they are not geared for research and development.

Ashdown has for some time sold a range of after market products under its own brand name but at varying levels of quality. For this reason its brand is not perceived as universally of high quality. To overcome this and compete directly against Bosch and Hella, Ashdown has entered into agreement with Trifar, a European after-market manufacturer, to provide a range of components of equal quality to Bosch and Hella. This range is sold with the same guarantee as Bosch and Hella but at around 70% of the price.

It should also be noted that Ashdown has experience in establishing brands having largely introduced the Hella brand in the market through their wholesaling activity.

The problem

The problem for Ashdown is that Bosch and Hella represent a sizeable proportion of their business. The margin on these brands is being squeezed, however, by the industry conditions. At the same time, the after-market copies such as Trifar provide significantly higher margins at a time of margin squeeze. Ashdown therefore would ideally like to switch the sale of high volume Bosch and Hella products to the Trifar after-market copy at a higher margin. This switching is also designed to safeguard Ashdown from the consequences of the channel switching that is presently being introduced into the industry. One of the problems, however, is that Ashdown need Bosch, Hella and the like to exist as it undertakes the development work that it then copies.

The explicit problem facing Ashdown is:

What proportion of the total product range should it introduce after market copies of?

What are the likely reactions of Bosch and Hella?

How can it circumvent that reaction?

How can it get the consumer to accept its own brand given the high level of brand loyalty in the industry?

What have they done about the problem

Historically, Ashdown has offered its own brand at differing positions in terms of price and quality. This has lead to the perception that the Ashdown brand is of varying quality. To address this perception, Ashdown has sourced a supply of

components that are of equal quality to Bosch and Hella through Trifar out of Europe. At present that range is restricted to around 220 of the fastest moving and profitable items from the nearly 8800 item range of Hella and Bosch.

In addition it has identified a list of 180 other products that represent high volume sales from the range of the two brands and prioritized them in terms of attractiveness to copy.

At the same time it has loaded the margin on slower moving Bosch and Hella items to regain some margin.

In an attempt to circumvent the industry trend towards a downward spiral of cost based competition, Ashdown has also introduced beyond product value add. This has come in the form of two initiatives. The first is a partnering scheme where Ashdown provides seminars and advice to trade on emerging industry trends and what it can do to take advantage of them or guard against their negative consequences. In association with this it has established a loyalty/patronage program. Both of these are designed to increase purchases of the Trifar brand. In addition, Ashdown has produced an electronic catalogue known as Sparky, which makes ordering much easier.

Outcomes

Positive

One of the most significant outcomes from its actions has been an increase of around 5% in its overall margin. There has also been growth in sales of around 12% and in market share of around 5%. In addition, there is a company belief that

the beyond product value add has aided in this increase while there would also seem to be greater brand equity linked to Ashdown from the Trifar range. This means that if anyone wants to replace a Trifar product they have to go through Ashdown.

This growth has not come at the expense of Hella business at least. While there has been a change in the mix of products sold, there has been no drop in overall income. The addition of the Trifar range has also increased Ashdown's flexibility in terms of the product range and that flexibility is not limited to any manufacturer's range. On another level, Ashdown's success in after market wholesaling has resulted in increased interest in overseas manufacturers wanting Ashdown to market their after-market product range.

Negative

While there has been no noticeable drop in Hella income there has been a 20% decline the volume of Bosch sales. This and the change in mix of Hella products has not gone unnoticed by the two firms who have expressed concern to Ashdown on the nature of the trend. While Hella has reacted through veiled threat of withholding some of its range, Bosch has opted for a more cooperative stance looking to explore a range of partnering options with Ashdown.

The risk that Ashdown perceives with respect to these developments is that these two companies will retaliate through reduced discounts and rebates that would make Ashdown's on-selling uncompetitive. There is also the risk that the two companies will establish regional distributors who will go into direct competition with Ashdown. One other possible negative reaction may be that Bosch and Hella could reduce their price thereby nullifying Trifar's advantage in the market.

These trends are also systematic of a larger and more ominous trend that threatens the whole industry. All of these actions are consequences of an undifferentiated market competing on price. There is a concern that such actions will undermine the profitability of the whole industry threatening to put the industry into a downward spiral of cost based competition thereby threatening the industry's stability.

In addition to these competition-based concerns, Ashdown's brand switching actions also increase its stock investment. As Bosch and Hella have domestic distribution points the level of stock investment of their ranges can be kept quite low. They typically stock less than two months supply of these brands. However, with after market product sourced from Europe there is a need to have far greater stock investment, typically over four months worth of stock. This has implications for return on investment although it doesn't undermine their capital position to any great extent. However, even given the increased cost of stock investment inherent in brand switching of this nature, the margin on after market products is still far superior to that of the Bosch and Hella range.

Other environmental factors that need to be taken into consideration

There are a number of additional environmental factors that may be of significance when considering this problem. The first relates to changes in the nature of the consumer and trade markets. There is a discernible trend amongst auto-electricians in other countries to join forces with other mechanical services to form one stop service centres. Mark Grahame believes that this trend will be extended to Australia within the next five to ten years.

At the same time there is an increase in the do it yourself market, which makes retail one of the few markets with market growth potential.

Other industry factors

While the explicit problem has been phrased at the company level, the nature of the machinations in the industry mean that the solution may well lie at an industry level. This may be particularly relevant to the issues at hand given that Ashdown's parent company, Pacific Automotive, through its ownership of Ashdown, Repco a retailer and Carparts, a specialist distributor, dominate the industry with a 28% market share as compared to 12% for their nearest rival.

What are the major related issues at this level?

The other major player within Pacific Automotive is Repco which acts as a retailer. At present Ashdown does not supply Repco to any great extent instead concentrating their retail exposure to Autobarn, one of Repco's competitors. It is possible that the consequences of the industry machinations as outlined above will have a more profound effect on retailers than trade.

Channel skipping is inherently more attractive with respect to the retail market than it is with respect to trade. There are around 3400 trade customers who order a range of products, not all of which come from the one brand. This has two consequences. Firstly, from the trade perspective, it is much easier to deal with one supplier like Ashdown than with many producers. This is exaggerated by the generally small size of most trade operations.

From the producer's perspective, distribution becomes difficult with respect to this market. Firstly, there are many of them. Secondly, the producers have centralised distribution points located in Melbourne. This means that they can not be as responsive as Ashdown which has a geographically diverse distribution chain. As the nature of the business is very time sensitive, a delay of a day in receiving a part is very significant.

This is not the case with respect to the retail market. The retail market is very concentrated with only seven main players. Each of these have centralised distribution points from where they distribute to their sites. These retail outlets are more professional in their buying patterns and so are prepared to source from multiple organisations. Finally, the nature of the business is not as time sensitive, thereby minimising the disadvantage of their centralised distribution operation.

The large organisational market would fall somewhere in between. Their size and nature suggests professional buying habits thereby providing an opportunity for the brands. However, the nature of their problems mean that they too are time sensitive with respect to delivery of parts. There are also around 2600 of them making delivery complex. All of this suggests that the most attractive target for channel skippers would be retail, followed by organisational, followed by trade.

This has a consequence for the problem at hand. Whilst Ashdown has only a small interest in the retail market, Pacific Automotive has a large interest in the market through Repco. Up until now the components of Pacific Automotive have worked independently of each other and in some cases in competition with each other. The unstable nature of the industry together with the success of Ashdown in brand switching has generated an interest within Pacific Automotive for greater coordination between component parts. This has potentially significant implications for Ashdown given their present small interest in the retail market. For this reason, anything that addresses the problems of Ashdown needs to take this into consideration. Not only that but the dominant market share of Pacific Automotive means that they are likely to be the only ones who could manipulate the market to change the conditions under which the industry competes. Given the potentially destructive conditions of the industry at present, this consideration may be significant in any possible solution.

These considerations have already been addressed to some extent through Mark Grahame's notion of a virtual organisation. Under this concept all Pacific Automotive customers would cease trading with individual components of the organisation, instead dealing centrally. Pacific Automotive would then divide up that business between components all out of view of the consumer. This would allow Pacific Automotive to structure the organisations as it saw fit without influence from the market.

What does Mark Grahame think should be done about the stated problem?

Mark believes that the solution lies at the Pacific Automotive level. It needs to take what has been done at Ashdown in terms of brand switching and put it across the whole group creating a critical mass in terms of volume. In this way it can take product through every channel in the automotive after-market market. To do this it needs its own brand. However, that brand can be sourced through other manufacturers rather than establishing its own production facilities. This could be structured as per the virtual organisation format outlined above.

In addition, there is need to undertake discussions with Hella and Bosch about the need for profit differentiation. In a similar way, product differentiation is also needed. With everyone in the market stocking the same brands, it is inevitable that it be seen as an undifferentiated market. There is a need therefore for Ashdown and Pacific Automotive to be seen as different.

Independent to this action, Ashdown needs to consider how to delay the timing of any possible retaliation.

Constraints

There are only a few minor constraints that need to be taken into account with respect to formulating a plan to address the stated problem. Pacific Automotive needs to be careful about what brands it puts through its channels. Some channel members believe that certain brands belong to them and may resent them being placed through other channels. These brands do not include Trifar or Ashdown's brand however.

On a related note it also needs to be careful of the pricing structures it puts in place. As the industry is structured now, there are different pricing structures for different channel members with respect to certain products. These nuances need to be managed carefully in any plan.

5.4.2. Ashdown/Pacific Automotive Case Study. Part B.

Analysis of the problem report

The model that is utilised to analyse the problem is designed to lay over standard marketing theory supplementing it to gain greater insight into what could be done and why. In this way the analysis that follows is a combination of old and new. Initially standard marketing theory is utilised to build an analytical framework from which the proposed model then illuminates that framework with analysis that explores not only what could be done but why. It is argued that the value of such insight lies in explaining why such actions are logical and then detailing what should be done to facilitate that in a way that is superior to standard marketing theory. The analysis is undertaken at all levels of Pacific Automotive and looks to integrate Ashdown and Repco primarily into a coordinated Pacific Automotive business. Let us begin with standard marketing theory. It should be noted that the author recognises that this is not necessarily the only standard marketing approach that could be taken. It is merely one approach consistent with standard marketing thought.

The problem report identifies one of the major problems with the industry as a whole as being the undifferentiated nature of the industry. This has led to price based competition at all levels of the distribution channel. To address this Ashdown has launched its own brand that looks to compete against the major brands at a similar quality position but at around 70% of the price.

Standard marketing theory would suggest that the task of moving brand loyal customers across to Ashdown would be difficult under this scenario. If we analyse this strategy from a consumer behaviour point of view the difficulty with the brand switching strategy becomes clearer. The aim of the strategy is arguably to get people to consider the generic brand Trifar as being of similar quality and therefore reliability to Hella and Bosch and from there to get them to compare the

price. From this will come the decision to choose Trifar over the branded product as they are all of equal quality but with Trifar being significantly cheaper. However, if we look at the brand associations already evident that may not in fact occur. The problem report argues that trade at least associates brand with quality. This suggests that the branded product can and should charge a higher price to confirm in the consumer's mind the quality association. This means that consumers are likely to make the price/quality association if the strategy is as successful as it is argued to be. This means that it is likely that consumers will not associate Trifar with being of similar quality because of the price differential. It is likely that within the evoked set of that market segment consumers will view the branded product in terms of quality but the Trifar product in terms of price. This is significant when the market is as brand conscious as this one and where that brand consciousness is linked to actual performance. This together with the significant perceived risk inherent in trying different products that may fail means that such devices as guarantees cannot be expected to work as well in this environment.

All of this suggests that to maximize the brand switch, Ashdown needs to be viewed in terms of brand rather than price and that therefore its price has to be closer to the branded price. Standard marketing theory suggests that one thing Ashdown could do would be to disguise the price based competition by providing value to the customers in other ways than through price cuts. The provision of greater value to customers is likely to be of even greater significance than generally would be the case because of the undifferentiated nature of the market. That is, brand against brand competition is unlikely to be successful either in switching large proportions of the customer base unless there is a value added differentiator as well.

Standard marketing theory can get us to this point or framework. It is evident in a broad sense that what Ashdown could do to maximize its brand switching strategy is to increase the price to near the competitors' price and look to differentiate itself on value added to the product using the added margin gained from the increased price to fund the program. The issue then becomes on what basis should Ashdown differentiate themselves. This is, where the new proposed framework can be of use in analyzing the situation and suggesting possible actions. The new framework looks to view such decisions within the context of what production processes the consumer is currently undertaking, what capabilities they have and don't have and from there what functions of that total process they could benefit from having someone else undertake for them. In addition, the new framework looks to better understand what goods and service are by viewing them not in terms of their physical nature but rather when the production is undertaken with reference to the consumer and what implications the timing of production has on what the producer can do. In this way, it is argued that goods and services should be viewed in terms of what should be done as well as when and why it should be done rather than on the level of their physicality.

Let us begin by analyzing the brands. The Hella and Bosch brands are built up on the basis of their technical quality. This has been established and reinforced by their research and development activities with respect to original equipment. That is, they have leveraged off their technical abilities to brand their product. In the words of the proposed model, its brand is very goods based in that all the production is carried out before the consumer enters the equation. The consequence of this being that they can control quality well and organise their production efficiently. However, as the product is a good there is little or no customisation possible. This is a desirable strategic position where the technology allows for either differentiation or cost leadership. However, in a mature market where that is not possible then such a brand is largely left undifferentiated with the only real point of differentiation being price based.

If we view Ashdown's and Hella and Bosch's brand from the perspective of the competition model a similar pattern emerges. Hella and Bosch have products that are heavily outcome oriented with few process attributes that aid the consumer in realizing those outcomes, although their channel skipping initiatives are an attempt to add more process attributes to their extended product.

Ashdown's brand, however, is built upon distribution and customer responsiveness. Most of what the consumer regards Ashdown for is after contact production, or service. Ashdown's brand is also heavily process attribute orientated. It aids in distribution and logistical problem solving and value add through point of sale process attributes. Its attempts to add a generic brand to its extended product is an attempt to add more outcome attributes to its extended product. In line with this, it could be said that Hella and Bosch have a goods centric, outcome attribute brand whereas Ashdown's brand is one of process and service attributes. Ashdown's combination of brand attributes, however, is advantageous in the industry's present conditions.

The model suggests that one of the qualities of services that is not present for goods is the ability to customise the product offering. This is true for Ashdown where its brand is built on customised solutions to its customer's individual problems. In a technically mature market where differentiation is difficult on the standardised good and outcome attribute component of the extended product, the model suggests that service or process attributes should be used as a differentiator.

This has a number of consequences. Firstly, this suggests that value adding through service is the logical point of differentiation for the industry. This means that Ashdown is in a favourable position within the industry as its brand is based on the service or process component of its product whereas Hella and Bosch are built on the good and outcome attribute component of theirs.

This suggests that for Ashdown to take advantage of this it should look to standardise the good/outcome attribute component of the product. This would nullifying any good and outcome attribute differentiation presently evident through the Hella and Bosch's brand thereby placing it on a similar footing to the branded products. As noted previously, this should be done through increasing the price and forcing customers to view the alternatives on quality. It should then differentiate itself through value added service and or process attributes, thereby leveraging off the strength of its brand as Bosch and Hella have done previously with their technical prowess.

If we view the scenario from the level of completion angle then two major issues arise. Firstly, this position is likely to be a strong one that Hella and Bosch will find hard to challenge. The model suggests that the reason that Hella and Bosch will find it difficult to challenge this position is that their own production processes have not been designed with service or process attributes in mind, they are a goods based company where product is primarily outcome orientated. This means that they will not have the capabilities to establish service or process attribute value add. They will have to not only import the capabilities but also alter their existing processes to ensure that this is possible. This will be very difficult in the short term as reengineering has not only process implications but also culture implications.

Ashdown already has a brand based on service and processes attributes. This means that to add further service and or process attributes will not be as difficult as a goods based brand as the changes will be incremental rather than profound. All of this suggests that Ashdown is likely to get a sustainable competitive advantage through value adding service and or process attributes that can not be challenged in the short term, are very difficult the challenge in the medium term and require a major redesign in the long term. Even then it is difficult to imagine that the branded products can challenge on the service or process attribute front as it assumes the development of capabilities in service or process attribute provision

by the branded companies of equal quality to Ashdown while at the same time maintaining its capabilities and processes with respect to research and development, the main thrust of its business. Success on two fronts in this situation is very difficult particularly with respect to a company that has few service or process attribute capabilities to leverage off.

This also suggests that the competitive threat to Ashdown won't come from a goods based company. The threat from companies like Hella and Bosch can be managed. The real threat to Ashdown is in other service or process attribute orientated companies leveraging off their service or process attribute capabilities to challenge them. However Ashdown can secure itself from this threat also. By understanding the needs and capabilities of the industry it can position itself at a point on the completion continuum that meets its outcome and process attribute needs. That is, if it can determine what the capabilities of the industry are it can determine what it is best for the industry to do itself and what it would profit from someone else doing for it. If Ashdown is successful at positioning itself at this natural point it is difficult to be challenged as the competitors have to take either an undifferentiated position or choose to undertake different functions that are to some degree at least inconsistent with the majority of the segment's capability needs. This will lead to a fragmentation in segments targeted with competitors forced to choose less desirable segments.

The second major issue that the completion model raises is what are the best service or process attributes to differentiate the brand on. The model suggests that by looking at what production processes the different markets go through to realise its goals and then analyzing the capabilities the present markets possess, gaps or opportunities can be identified where Ashdown's capabilities can be leveraged off to undertake some of the processes for it with the view of increasing its effectiveness and efficiencies. That is, there must be some things that these organisation does now that it would be more efficient and effective for Ashdown to undertake. If these are then undertaken by Ashdown the organisation gain

benefits in efficiencies and effectiveness but also loses a degree of control as Ashdown substitute their processes for the organisation's. This has the dual effect of locking them in as to change processes would require not only a re-conceptualisation of what to do but the reengineering of all those processes that surround it. This loss of control can also be targeted at points in the process that determine certain behaviour, in this case brand loyalty, thereby altering the whole process of the organisation to one that more easily facilitates Ashdown's goal, in this case brand switching.

In an undifferentiated market the model suggests that companies can look to differentiate themselves by either increasing or decreasing the level of completion contained in the extended product. In this case, given the undifferentiated nature of the good/ outcome components of the extended product it can be concluded that the differentiation should be based on a higher level of completion. That is, the logical point of differentiation is to do more for the consumer, to do something for them that at present they do themselves either not as well or more expensively because of a lack of capabilities.

As there are different levels of capabilities evident for the different channel members this would suggest that what that added production was would be different for each channel member and be linked to their own capabilities and the level of control they wished to exert over the outcome, keeping in mind that the greater the level of completion, the lower the control over the outcome that is possible. That is, Ashdown needs to develop a program of differentiated service or process attributes, which differ for each separate member of the channel.

Before we begin looking at the specific individual markets there are a number of brand related issues that need to be addressed but that do not relate to any one specific group. Given the brand conscious nature of the industry together with the fact that Trifar is now well established it may be prudent to replace the Trifar brand with a new brand that doesn't have the price based associations. This could

be as simple as rebadging the Trifar range. In the long term this will have additional advantages beyond freeing it of the price associations. Ashdown already produce the value added process attributes associated with Trifar in terms of the point of sale material. These are process attributes in that they do not effect the need satisfying nature of the product but instead aid their consumers to achieve that need satisfaction, in this case their sale. This means that all Trifar is providing is the commodified outcome component of the product in good form. Rebadging the range will therefore not effect the inclusion of these process attributes as Ashdown themselves control them. However, Ashdown gains control over the brand. This means that it has control over variables such as price while providing it with the flexibility to alter suppliers should that be necessary down the track.

The second brand issue common to all markets is the danger associated with the virtual organisation concept. It has been demonstrated above that Ashdown's brand puts it in a strategically strong position to leverage off. The virtual organisation would undermine that position, making it difficult to leverage off their brand to differentiate on the additional process attributes it intends to provide. Without the Ashdown brand, brand switching would be more difficult.

Let us then view each of the different markets in turn to try and determine what sorts of process or service attributes can be included to meaningfully differentiate Ashdown from the branded products.

Retail

There are two markets within this retail sector. There are the end consumers and then there are the retail establishments such as Repco and Autobarn.

Consumers

The problem report identifies that there is a growing trend towards DIY. This makes the retail market attractive to Pacific Automotive and Ashdown as one of the few growing markets. The model suggests that one of the main issues with respect to the DIY market is that many lack the skills, knowledge and tools to undertake the production themselves regardless of whether they wish to or not. If we utilise the level of completion model this suggests that any product aimed at them should include further process attributes that act to increase the capabilities of those who wish to DIY. By doing this the size of the market is increased to include not only those that have the capabilities to DIY but those who do not. This could be achieved through packaging and at point of sale. Instead of utilizing the packaging and point of sale as functional or communicative, they could be used to increase capabilities through demonstrating how to change the component, for example. This could be achieved through the packaging, additional information or through point-of sale. This process could be facilitated through segmenting the information range based on car type. This information may include how to do it, what tools to use and the like. This would represent process attributes that substitute for a lack of knowledge thereby increasing the capacity of the consumer.

The inclusion of these process attributes would address that part of the market with knowledge or in some cases skill capability deficits, however, it could not address those who could not DIY due to lack of tools or more specialised skills. The lack of these capabilities could be addressed in another way to increase the size of the DIY market and take advantage of the trend. The problem report identifies that the service centre concept is likely to be of significance in Australia in the next five to ten years. What this represents in terms of the model is a product that is more complete thereby reflecting a desire for consumers have more done for them than is presently the case. The concept makes it easier for the consumer. This may be for reasons of lack of capability or time. That is, they don

not have the capability or time to coordinate the activities and having someone do it for them is likely to be attractive. The down side is that they loose control over who does it, having to take the individual providers that are part of the centre. In this way the service centre concept has the same outcome attributes but contains more process attributes. The car still gets fixed but the provider does more for the customer.

Ashdown could look to facilitate this process. It could be applied to such retail outlets as Repco where service centres could be placed out the back and offer a service that represents the spectrum of completion options appealing to the range of capabilities needed from advice, to access to tools, to help, to full service. In providing a suite of possibilities Repco would provide a service that covered the lack of any or all of the capabilities that lead to DIY activities and so cover the market, thereby increasing the size of it. In this way Pacific Automotive could take advantage of the trend in a way that maximizes the viability through tapping all possible markets.

The advantages of this to Pacific Automotive are numerous. It is a potential new income stream in an industry of low growth that taps an observable industry trend. The model suggests that the income is derived through not only the component parts but also through the coordinating activity, which in itself is a capability that may be lacking in the market or desired for time reasons. In this way it also has greater control over the future direction of the industry increasing its overall market share thereby increasing its ability to control price and reducing the risk of further price based competition. The concept also provides growth opportunity for parts, as they would all be sourced through the attached Repco centre. It also increases the opportunity to brand switch by taking the brand conscious trade operator out of the cycle.

Retailing business

There are different drivers with respect to the retailing businesses. When looking at what can be done to differentiate Pacific Automotive for this grouping the level of completion once again needs to be taken into consideration. What part of the total production process can Pacific Automotive undertake for this grouping? The logical place to start is with what capabilities does Pacific Automotive have that can be used for this sector that will provide something of additional value to them in their own processes. If the issue is viewed from this perspective two main issues become apparent.

Ashdown has built its brand and therefore its differentiation strategy on its capabilities in distribution. In addition, it is recognised that Bosch and Hella, being goods and outcome attribute based brands, have not developed capabilities in these areas and will struggle to do so. It is therefore a logical place to start to look for a value add that is not easily replicated by the competition. One option would be for Ashdown to utilise its distribution capabilities, both network, skills and knowledge to do more for the retail outlets. At present the outlets have centralized distribution points from where they distribute to their individual stores. This centralization allows Bosch, Hella and Narva to channel skip without developing an extensive network themselves. This then becomes the logical point at which Ashdown needs to strike to nullify this threat.

Distribution channel options

As one option, Ashdown could look to utilise its distribution channels to supply the retail chains. Ashdown could utilise its already extensive distribution network to offer cost effective distribution to the chains. If that was priced as a cost leader in that only the additional cost of distribution was passed on to the retail outlets then it is likely that Ashdown could provide its distribution at a cost lower than what they could do it themselves. This is likely to be feasible given that Ashdown

should in the future supply Repco and that the others are likely to be located in the same general vicinity. The additional cost to service could not be anywhere near the cost of establishing and running 6-7 independent distribution chains. As its brand is built on distribution such an extension would be logical in that it leverages off existing Ashdown capabilities and does not presume the development of an extensive and integrated set of new ones.

This would have a number of advantages. Firstly, it would stop the channel skipping of Bosch and Hella. They would be forced to distribute through Ashdown. This would stop the margin creep resultant from channel skipping. Secondly, Ashdown could place its own generic brand into the centres thereby increasing brand switching possibilities. Thirdly, it would remove Narva from the distribution channel. It would be largely shut out unless it went through Ashdown.

To be totally successful such a strategy probably means that Ashdown would have to increase its product range from just auto-electrical parts to all car related parts. Given its ability to source generics this would open a whole new income stream thereby developing the market. Given the move by Pacific Automotive to streamline its channel activities such an expansion would probably be logical to consider with respect to Repco anyway.

If we look once again to work off the capabilities of Ashdown to develop an effective and cost effective process (i.e. it is easier to modify slightly than to develop a whole new process) it can be seen that such a distribution function could be organised through the Sparky system.

Utilizing the Sparky system

The Sparky system is a process attribute of Ashdown's extended product. It aids the consumer in its production processes by making it easier to source parts.

The Sparky system could be used to automate the ordering system of the retail outlets and if used in conjunction with its register could deliver great economies and additional process attributes. If the Sparky system was linked to its register system then ordering and distribution could be organised automatically. Given the extensive nature of Ashdown's distribution and the size that it would grow to, daily or weekly runs could be made, orders generated automatically through the system. This would allow a JIT system of stock holding for retailers thereby decreasing the stock range that has to be held and so decreasing stock investment, reducing space and so rent demands and thereby increasing the company's cash-flow. This means the system would return to the retailers not only in terms of cheaper distribution but also in terms of cheaper stock control and premises overheads.

An electronic system such as this is very powerful at delivering additional process attributes in a very cost effective manner. As it is on the internet and not just on a CD-ROM it can provide these process attributes in both good and service formats. Goods attributes can be provided in the form of almost unlimited information, which could be structured as value added briefings on trends or used to increase its capabilities through educational type programs. More formal training modules customised to each retailers needs could also be run over them at little cost to Pacific Automotive but at great value to the retailing chain. Alternatively, the internet through the Sparky system could provide additional software that aids a spectrum of business activities from accounting, to stock control through to customer relationship management (CRM) programs. As goods based components are produced once but accessed many times such process attributes could be provided almost free thereby increasing the retail chain's skills and knowledge while at the same time facilitating the improvement of its processes at virtually no cost to the retailer and at limited cost to Pacific Automotive. This obviously has the potential to increase the value of Pacific Automotive's product offering to the retailer. Not only does it act to lock the retailer in through additional value adding but also through its dependency on Pacific Automotive

for aspects of its extended processes. That is, to move away from Pacific Automotive these retailers would need not only to replace these processes but to re-conceptualise and reconfigure its business processes that these processes form part of and from there to implement that reconfiguration. Not only does this represent a great deal of work and expense but assumes capabilities that may not be evident in the individual retail chains.

The live nature of the internet also means that services can be delivered over it in the form of customised solutions to its problems. This would be a potential income stream and would look to leverage off Ashdown's existing capabilities in service provision. Such services may be based around sourcing and distribution issues but could also extend to a range of business functions or problems that need to be addressed in a timely fashion.

Sourcing generic products

The second capability that Ashdown could leverage off in order to offer greater process attributes to retail businesses is its ability to source generic products. Ashdown could arrange the production of each retail chain's own range of generic products to be sold solely through each channel. It could then use its own capabilities in POS to package and support these generics as an additional process attribute. Given its own activities and the economies of scale this would represent, it is likely to be cost effective and therefore once again attractive to the retail outlets.

There are many positive points and few negative ones from such a strategy. Firstly, the development and distribution of numerous ranges of generics is possible given the nature of the technological markets at present. These retailers are increasingly looking to source generics overseas but have yet to develop its own capabilities in this respect to the level and efficiencies of Ashdown. This means that eventually the retailers would develop its own generics meaning that

such a strategy would not cut into the market share of Repco but would provide an additional income stream through pre-empting the trend. Ashdown's income would increase significantly by the inclusion of more generic lines with its correspondingly larger margins. The control of the channels would also mean that Ashdown could control the pricing of the industry thereby lowering the threat of price based competition. Given that price based competition is destructive to the whole industry this type of control would most likely have the support of the whole channel as it would not be in its interest to challenge it. Lastly, the development of a range of generics would mean that the product range would be more differentiated with this differentiation being controlled by Ashdown. As one of the key reasons for the price based competition is the undifferentiated product range this would also act to decrease the necessity of price based competition and so strengthen the industry as a whole.

It would probably be in the interest of Ashdown and Repco to encourage that such generics were positioned on price as the present Trifar range is. In this way they would still attract a significant margin but would not compete directly against Ashdown's generic brand.

In conclusion, Pacific Automotive could look to do more for both consumer and retail outlet and thereby take advantage of emerging industry trends while at the same time dominating the distribution channel. By leveraging off its own capabilities and through the cost effective use of the Sparky system great value can be added to its product offering at minimal expense. This is likely to have the consequence of locking in retailers, locking out potential competitors and providing Pacific Automotive with significantly more income streams. The control of the channels will also address the destructive nature of the present cost based competition thereby increasing margins for the industry as a whole. This is likely to generate goodwill and a lack of desire to alter the structure thereby making the system self-sustaining.

Trade

Utilizing the Sparky System

If we use the model to analyse the industry it can be seen that the small size and subsequent low business skill level of the average trade operator, together with its high level of brand consciousness means that there is great scope to increase its performance by doing more for them through the inclusion of additional process attributes in Ashdown's extended product. The small size and low skill nature of the industry suggests that the most attractive process attributes to include are those that relate directly to its business processes. The partnering scheme has already recognised this. Given that the Sparky system is already being utilised by this grouping it would be the ideal vehicle to drive the delivery of such process attributes. As indicated with respect to the retail operators, the capacity of the Sparky system to do more of the business functions for trade is significant. These could include service attributes such ordering but also goods attributes such as software that helps facilitate other business functions such as accounting, tax issues (BAS) and the like. An even more complete option would be to use Sparky to replace varying proportions of its back office functions, thereby lowering its overheads, increasing its efficiencies and subsequently improving its cashflow. That is, Sparky could be used to develop a new business model for them taking advantage of the efficiencies that an internet system provides. In line with its low skill level any additional functions would need to have significant process attributes included so that they could use it easily with its current level of capabilities. That is, they would need to be very user friendly programs so that additional capabilities required to operate them were kept to a minimum.

As Sparky is primarily an ordering system it is a logical place to start in including more process attributes. It is also the logical place to look to break the decision-making processes of trade operators that lead to brand loyal behaviour towards Hella and Bosch. This in turn will enable greater switching to Ashdown's brand. One possible process attribute that could be included in Sparky to facilitate this would be a camera and image reading software. If Sparky made it easier for the trade to order then it is likely that the trade would more willingly give over control over what part is sourced. The camera system would work by having the trade operator just show the part to the camera, which would then analyse what part it was, order the part and then deliver it. This delivery could be facilitated through the extensive delivery network developed with respect to the retail sector and so lower the cost. Unless the part was specified as a brand then a generic could be substituted. Such a generic would, however, be priced near to the branded component to reinforce its quality position. The added margin that results from the price increase could then be paid back to the trade operators through rebates off its deliver charges. In this way they would receive the savings from a generic part but not perceive the generic as lower quality. As the value would be in such areas as distribution costs the trade operator could pass on the full price to the consumer thereby gaining a greater margin and saving on distribution charges. Being a one-stop shop Ashdown would then generate a monthly invoice taking off distribution charged based on generic usage automatically.

Service centres

The problem report also highlights the trend in the industry towards consolidation into service centres. This trend is seen as relatively inevitable and it is this trend that the partnering program has looked to value add in advice. Ashdown could go one further with respect to this trend and facilitate that process for them as a further process attribute in the extended product. This could be done either in a

real sense by physically arranging the joining as per the Repco model or in a virtual sense by facilitating networks in geographic proximity to each other. That facilitation could be achieved through the Sparky system by sourcing likely partners and organising the contact.

These value adds would aid Ashdown and Pacific Automotive by breaking the brand loyal behaviour of trade operators thereby increasing the likelihood of brand switching. They would lock trade operators into its channel by ensuring that part of its business processes is done by Pacific Automotive. This would mean that it would be difficult for trade operators to leave as they would have to not only replace the processes but conceptualise and implement the replacement. Considering its size and nature, the existence of such capabilities is unlikely. Given the efficiencies of such a model and the value add that the Sparky system can provide, it would be difficult for a competitor to offer a value proposition that was superior enough to justify movement. If part of the value add provided by Sparky was an accounting and tax system then it would be difficult for competitors to channel skip as operators would have to account for them manually, which represents a significant amount of effort and so likely to be unattractive to resource hungry trade operators. The shutting out of channel switchers would also act to firm up margins as price based competition was removed.

Organisational

Large organisations are more business like than trade operations and so can be expected to possess more capabilities than them. They therefore need to be targeted with a different extended product which reflects its capabilities but that looks to do more for them in terms of its own processes. There is therefore less opportunity to use the Sparky system to introduce a new business model for them. There are, however, certain process attributes that can be included that are going to be of value to them and aid the business of Ashdown and Pacific Automotive.

The camera on Sparky is a process attribute that is consistent with the capabilities of this group. The organisation could just show the part to the camera after which Sparky would determine what it is, order it and arrange quick distribution of it. As is the case with trade operators this would decrease the time and work required by organisations to undertake these functions thereby saving money while increasing the ability of Ashdown to increase brand switching where organisations do not specify a branded product. Such switching behaviour could be rewarded through rebates off its distribution costs in a similar way to trade operators. While there would not be the financial reward associated with passing on the full price to consumers there would be in terms of distribution savings. In this way the Ashdown brand could compete on value without having to compete on price. The ease of ordering and the efficiencies of distribution that Ashdown would provide would effectively take channel switches out of the market as they could not establish and run a competing distribution system as efficiently as Ashdown. If Sparky was used in trade and retail to cut out channel switches there would not be economies of scale to justify a distribution channel just for organisations alone.

While there is less scope to include business model process attributes within Sparky for this market other valuable process attributes that relate to the organisation's functions could be included. As the Sparky system is basically a distribution channel for information it can be used to provide both good and service information based process attributes. Goods attributes may include industry information, commentary and access to other databases or as a channel for training. Such training could be developed by the organisation or if they did not have the capabilities or economies to organise that through Ashdown for a fee. Such training could be in modular good like form or as a live service type form. In a similar way, the system could be used for networking between organisations and for seminars and the like. In this way, Ashdown could utilise the Sparky system as its main distribution channel for its partnering program

which provided the above value add but also went further by providing customised solutions to its business problems. As with trade operators, the cheap to produce good process attribute (produce once, provide many times) could be given to organisations as value add while the more expensive, one on one, customised solutions could be provided on a fee for service basis.

These activities would aid Ashdown and Pacific Automotive by increasing the likelihood of switching behaviour, locking out channel skipper and providing them with increased income sources through the services provided through the Sparky system.

Bosch and Hella

One of the explicit questions raised by the problem report was what the likely reaction of Hella and Bosch would be to increased brand switching, what they would likely do and how to postpone or address that action. If Ashdown/Pacific Automotive were to develop a program as outlined above it is evident that the major losers would be the brand players. The system is designed to increase brand switching and has been extended to more of the retail system. If the program was successful it can be expected that both brands would experience significant reductions in its market share.

While this is true it is not a problem that Ashdown needs to be too worried about. Both brands are based on goods centric, outcome attribute orientated technological properties. It can be expected that both will retain this emphasis, as it is the basis of its original part market thereby providing a continued opportunity to copy. That is, they would not stop because its after-market market had been reduced. In addition, the industry is a worldwide industry with many of the

copiers in Europe and Asia. It is more than likely that the small size of the after-market market in Australia in the overall scheme of things and the proven inflexibility of the organisational structure means that in all likelihood that they would have to cop it sweet.

Having said that, however, there are a number of things that Ashdown can do to address this problem for them. Firstly, the control of the distribution channel for the industry by Ashdown means that the price-based competition would cease thereby increasing margins. This would alleviate, to a degree, the loss of market-share. In addition, the fact that both would be forced to distribute through Ashdown means that Ashdown would not have to copy the whole range only the fastest moving items. This means that the mix would change. The control of Ashdown of the distribution channel would mean that the brands could load the margins of the slower moving items to recoup some margin.

In addition, the brands would save through not having to develop its own personal selling and distribution teams necessary in channel switching. As they are starting from scratch the development cost could be significant. They could instead stick to leveraging off its present capabilities in such areas as research and development and the original markets.

It is unlikely that brand switching would totally decimate the market for branded product, because some always prefer the brand. If Ashdown was successful in controlling the retail, trade and organisational markets they could then lock Narva out of the channel. This would provide Ashdown with two possibilities. They could look to distribute Narva or they could look to split Narva's market share with the brands. As the Narva share would be made up of both brand conscious consumers and ones that are capable of being switched, the lock out of Narva would act to increase the sale of the branded items across its market range.

Sourcing generic product

Another strategy that Ashdown could pursue with respect to this market would be to source some of the generic range to be used in the retail competitors through Hella and Bosch. That is, Hella and Bosch could use some of their excess capacity to develop generics, which are sold through the retail channels. As both brands have a concentration on outcome attributes rather than process attributes Ashdown could then use its packaging and POS expertise as well as its branding capabilities to brand and distribute them for Hella and Bosch. In this way, the brands would not have to develop new capabilities to develop such new branding activities. Such an alliance would also look to leverage off each's capabilities and brand strength, Bosch and Hella in terms of technical goods and outcome attribute based capabilities and Ashdown off its POS and service orientated distribution capabilities.

Such a strategy would also aid Ashdown in that sourcing domestically supplied generic product would reduce its stock control costs thereby increasing its margin.

If Ashdown were to do this they would need to be sure that they mixed the range being sourced through the brands to the retail outlets. It would be unwise to source a whole range of generic brands for one retailer through one brand as it would leave them vulnerable to channel switching at some future point in time.

Conclusion

All this suggests that the answers to the explicitly stated problems lie in Ashdown/Pacific Automotive utilizing its present capabilities in distribution and the Sparky system to shut out channel skippers. The fact that its brand is built on service and process attributes while Hella and Bosch is built on outcome attributes in a good form means that because of the technologically mature nature of the industry, Ashdown/Pacific Automotive have a potential sustainable competitive

advantage that can be leveraged off to address its problems. Given Hella and Bosch's brand strength and organisational structure it is unlikely that they will have the capabilities to challenge on this front while the cost effective nature of the internet in delivering value added process attributes in both good and service form mean that the value proposition that Ashdown/Pacific Automotive can provide will be hard to challenge and very attractive to the different channel members.

By targeting process attributes at points in the channel member's processes that determine brand loyalty and replacing them with Ashdown's at greater effectiveness and efficiencies, brand loyal behaviour can be circumvented.

Not only does the proposed program address the explicit problems but also identifies market growth potential by leveraging off its capabilities to taking advantage of industry trends.

If all of this works then the problems associated with the likely reaction of Hella and Bosch are minimized. This is because they have no option but to distribute through Ashdown and because the system then looks to support them through increased market opportunities, which if accepted will act to safeguard Ashdown from rival distribution companies poaching the brands.

5.4.3. Ashdown/Pacific Automotive Case Study. Part C.

Report from Mark Grahame on the utility of the analysis and models

The following is the report from Mark Grahame of his views on the utility of the analysis and the underpinning models. It is divided into two sections.

The first section is a report written by Mark Grahame responding to specific questions I posed. These questions correspond to the hypotheses of the study.

As was the process with the other two case studies, the researcher conducted an interview with the respondent in which the utility of the analysis and models were discussed. In the Ozflorex case that interview then formed the basis of the report. With the University of New England case study, the respondent asked to be able to write their own report based on notes from the interview. Mark Grahame from Ashdown also volunteered to write the report for the third case study.

However, the researcher thought that the report did not capture all of the valuable observations made by Mark Grahame in the interview and so requested that as part of the final report Mark Grahame may like to comment or expand on some of the comments that he had made in the interview but had not elaborated on in his report.

Part B of the report is that elaboration. The report is structured around Mark Grahame's responses to quotes he made in the interview. In addition, the researcher has elaborated to a greater or lesser extent on why he thinks these comments are of value and how he intended to utilise them. This was to provide a context in which Mark Grahame could address the issues. At the time of the report writing it was stressed that Mark should only comment where he still felt comfortable with the comments that he had made.

Part A – Written report from Mark Grahame

Question 1. Is the analysis of help in clarifying the situation? If so in what areas or ways.

YES.

- The analysis combines traditional marketing theory with new perspectives. The problem and underlying issues were defined in a new way that more clearly highlighted what actually needed to be addressed.
- Now that I have worked with it I find the methodology easier to use from a real-world perspective. It focuses attention rather than using a more broadly based approach.
- The analysis specifically highlighted the differences between Ashdown and Hella/Bosch in terms of relative completion and production, and thus highlighted the area of differentiation and potential value to the customer.
- The differentiation is not just product but also service which is more complete than the traditional 6 or 8 P's approach in traditional marketing.
- The analysis approach provided a more formalised template with which to better analyse the problem.
- The analysis proved relevant across market segments with significant differences. For example, trade is markedly different to retail.
- The analysis also flowed across the various elements of the marketing mix providing a different viewpoint than traditional means. It highlighted both problems and opportunities.
- The approach highlighted both strategic and tactical issues.

Question 2. Is the analysis of some help in determining what to do, tactically or strategically? If so, in what areas or ways?

Both models can be employed across both tactical and strategic issues. From the viewpoint of the formulation of competitive marketing strategies the models highlight opportunities. Likewise, when used at the product or customer level there are specific product attributes or customer benefits that are also highlighted and this is what I would define as more tactical in nature.

If I compare this to Porter's Customer Value Delivery Model of choose the value, provide the value and communicate the value, that model takes a much more broad approach. Both the completion and production model start with a more focused approach and build up. Porter's model, I feel, starts with an overall view and then drills down.

The Level of Completion Model

Question 3. Does the Model enlarge personal constructions of what a product good and/or service is?

YES. It breaks the product into how the consumer will view it. The essence of marketing is customer satisfaction; this model starts with that viewpoint. It goes beyond the traditional view of product features into the area of consumer utility. In many cases, in my experience, it is the consumer's expected utility to be derived from a product or service that drives the "sale".

Question 4. Does the model improve understanding of how others view product, good or service?

Yes. The level of completion model explicitly provides a template to view the product from the consumer perspective. It then goes further and divides that view into:

- What the product manufacturer or distributor provides in terms of utility
- What the customer is expected to provide.

The analysis then provides the opportunity to identify either actual points of differentiation or opportunities.

Question 5. Does the model stimulate and empower action?

YES, I found that the model presented information to me in a way that encouraged me to take action. The traditional marketing models almost assume that the underlying work of identifying customer benefits etc is complete. This model starts with the customer and then moves up into enabling the use of more traditional models to build the marketing mix on this base.

Question 6. Have I used the model?

YES. We have used the model to build a range of Thermofans to take on Davies Craig who are the market leader. The range is yet to be launched but the design of the product and service aspects were built from a level of completion aspect and then the marketing mix applied.

Services and Goods Production Model

Question 3. Does the Model enlarge personal constructions of what a product good and/or service is?

YES. The model looks at production attributes both before and after the exchange. At first I found it difficult to differentiate this from the level of completion model. The two are intimately related and for me the use was:

- Use the level of completion model to better understand needs in terms of benefits or utility;
- Use the production model to evaluate where we need to be in producing a product/service to best fit the outcome of the level of completion most desired;

It focuses my attention on what aspects we need to provide before the product is built and that which is required after the product is sold.

Question 4. Does the model improve understanding of how others view product, good or service?

YES. It fits in with the completion model and allows me to specifically identify those attributes needing to be provided in the production or pre-sale phase, and those required in the post-sale phase. Most importantly, the model specifically highlights consideration of these views.

These issues are contained within traditional marketing theory but are not specifically highlighted in that methodology.

Question 5. Does the model stimulate and empower action?

YES. The approach highlights the issues that need to be addressed.

Had I not been exposed to traditional models how would I view these models?

I used both models as a starting point with which to then apply our traditional methodologies in building competitive marketing strategy. Issues such as differentiation, positioning, the 6/8P's etc were applied AFTER using the models.

Thus, to best explain the new models I would present a case that demonstrates their use.

I have to admit that it took me four or five times to read through the models themselves to understand their mechanics. I am by no means expert in their use and frustrated that I could not give them more time. I intend to do so during my Christmas break as I think there is real value in a new approach.

Part B – Response to interview comments

Interview comments

The first comments relate to how the approach is different to what is going around at the moment.

You said:

“A true marketing approach, that's what we're supposed to be doing. I can't remember reading anything that's actually put it in those terms. Marketing management, strategic management, do any of those attack it from this perspective. I don't think so.”

Response

My interpretation of marketing is that its aim is to shape the business in order to best meet the needs of the customer. The underlying theory is therefore to best identify what those needs are in terms of product/service features; utility in terms of customer benefits; and if possible to go beyond what the customer expects.

I think that the combination of both models explicitly forces the marketer to focus on the resolution on these issues. The marketing approaches that I have used before state that this is important but do not provide explicit guidance in terms of achieving this ambition. For example:

1. Value mapping and customer value ranks total perceived costs and total perceived benefits; then plots some positions on the matrix. But it does not actually tell me how to measure benefits nor costs.

2. Segmentation and targeting presents a box with "benefit mix segmentation" but does not provide a template either.

3. Positioning strategy espouses "differentiated benefits" but I cannot find an explicit description of how to define this within this model either.

4. The customer value delivery model is probably one of the better models in focusing attention on the delivery of customer "value" and it is a model that I have used frequently. However, it too states "choose the value" and this is comprised of segmentation, targeting and positioning. I use the models described above but none of these explicitly guides me to defining precisely what comprises customer value.

Interview comments

The next comments related to the 4/7Ps.

You said:

"The 4-7ps, nothing in that that says that if you do all that do you come up with this product here. I don't think you do. 4ps exist but it starts at the product, this explains product, 7ps go from there."

Response

Are the 4 or 7p's production oriented? It may depend on the focus of the marketing person using the model. Do I look at product from the viewpoint of the manufacturer, or from the viewpoint of the customer? Do I look at promotions from the manufacturer or company viewpoint, or as the customer will perceive this? Bosch for example, is a splendid example of an organisation whose culture is enamoured with their range of products essentially saying that "our product is not good, it is not better, but it is best". You should buy Bosch because the product is best and their entire marketing mix reflects this product focus. On the

other hand if I look at a Taiwanese company called Unipoint who also manufacture starter motors and alternators ala Bosch, their organisation has a culture that is highly customer focused. Their marketing mix decisions are far more customer friendly than that of Bosch.

Our business is striving towards that customer focus. I thus would argue that it is not the marketing mix itself that drives its focus as production or customer, but the organisation culture.

Interview comments

The next comments relate to brand.

You said in the interview that you agreed with the brand analysis.

Response

I agree that marketers have separated product and brand management. In recent months I have become intensively involved in the multiple businesses within the Automotive Parts Group comprising Repco, Ashdown, Motospecs, Appco and Carparts. For example, we discovered 13 brands of brake pads! If you covered good, better, best you only need 3, and this is ignoring any argument about the positioning of the business and why customers visit our businesses. What are their expectations?

I think that you can use the models at the macro or Brand level as well as at the micro or Product level.

I think that by using the model across a range of products you generate a range of outcomes that then put these products into logical groups in terms of

process/service and outcomes. The end result is then a clue in positioning these "like" groups of products. It is then wise to ensure that a Brand encompasses a like group as it is then possible to link these perceptions with that of brand name. My interpretation of branding is that it conjures up a mental image in the mind of the customer of the benefits to be derived from that brand and thus to purchase the product. The models enable both the evaluation of the potential benefits for both existing products and either new or proposed modifications.

For example, we identified an opportunity to develop a range of thermofans to compete with the Davies Craig brand. So we used the models to evaluate the products within the Davies Craig range. The outcome then allowed us to decide on the features/benefits we should put into our range in order to differentiate ourselves and to be competitive. We then used these aggregated product analyses to position the Brand.

You can also use the models to evaluate the positioning of a Brand in exactly the same manner as a product. For example, Repco were keen to expand their range of starter motors and alternators. Without exploring individual products we used the models to identify what "Brand X" needed to possess. From this analysis we then determined what we needed to build into the range of products. The "Champion" range of starter motors and alternators is currently under development. If Brand Equity were about the level of customer awareness for a brand, then I would argue that the best way to maximise equity is to find out what the customer really feels is important and then shape Brand to that.

Interview comments

The next one relates to its use as a framework. You have already talked to some extent on this so all I need is a few phrases that tease out some additional understanding.

Response

I want a marketing methodology or framework that provides a step by step approach to the consideration of marketing decisions. Given over 20 years marketing experience and participation in learning activities covering "marketing" I am more fortunate than others. In our business we are increasingly employing marketing people to drive areas of our business previously occupied by product or technically focused people. I want to provide them with a template that puts all of the key theories into one model. At present it is disjointed bouncing between various theories that as previously described do not have the customer explicitly at their heart.

Roger, your models offer a great starting point in focusing on the customer. They address the issue of "value". I would then link this "front end" with Michaels & Lanning "Value Delivery Model: Choose the value, Provide the value, Communicate the value". Your case analysis basically used the models in this fashion and then addressed the strategic and tactical marketing elements.

For the purposes of our businesses I would add another box to the value delivery model called: "Find the value". Frankly, without precisely defining this element, the progression to the other boxes is not valid. There is no point in choosing, providing or communicating something that has not been accurately and explicitly defined!

Interview comments

You made a point that a lot of what you had done before was logical and done for good reason however it was disjointed.

You said:

"First model I've seen that actually formalises the thinking process about the package, brings the whole thing together and says don't think of it as a product, advertising, promotion, service, look at it as a package and everything just then falls into there."

Response

"Find the value" takes a macro perspective and allows the exploration of multiple factors. It ignores the marketing mix, it ignores branding, it ignores strategies, it enables as broad an analysis of product/brand as you choose in the context of the customer. Once "found" you can then move into the micro phase of addressing each element needed to deliver this to the customer.

Interview comments

And lastly you made an interesting comment to the effect of" allows you to think that way, capabilities, as it takes you away from the product form."

Response

Automotive parts have the environment where it is very easy to fall into the trap of becoming enamoured with the technology of the product rather than the real benefit to the customer. I believe that the key to business success is to satisfy the customer better than any of your competitors, encouraging them to buy from you time and time again. Embodied in this is then an understanding of what that customer wanted yesterday, what they want today and what they would like tomorrow. If you can understand this better than your competitors, and then shape all aspects of the business to deliver this, and profitably, then you must be successful over the longer term.

You do not need to use your models specifically on product. I have demonstrated its use on brand. I use the competitive marketing strategy models frequently in my role and yours fit into this in terms of identifying value and potential differentiation. But I have not explored this aspect in any detail.