

IS THE CUSTOMER AN ENDANGERED SPECIES?

NICHES AND CLUSTERS

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INTRODUCTION

At the centre of the language of business strategy lies the word: "niche". Within the language of marketing practice, the basic definition of a competitive niche seems to have been used to do little more than to refer to particular combinations of product market characteristics. It has therefore added little to the well trodden area of market segmentation. This is unfortunate, because there is a need to reconfigure and develop such marketing approaches to help cope with current strategic priorities (Day and Wensley, 1983). We do not wish to imply that such a grafting of language onto marketing practices is necessarily unproductive: only that the way in which it has been grafted to date seems to us to have denuded the concept of 'niche' of much of its richness; and done so in a way which might be taken as being contrary to the very spirit of marketing itself.

Our own view is that the idea of a 'niche' bears much fruit when grafted with more care. In particular, the relationship between the business and its environment, of which the word 'niche' speaks, carries crucial assumptions about the nature of the environment. On careful examination of these assumptions, it is far from obvious to us that a customer market should be regarded simply as an environment for businesses: they suggest additional issues to be considered, not the least of which being to regard businesses as an environment for the customer. This leads us on to the question of what is meant by the word "customer". As with the controversies surrounding the implications of always using the pronoun "he", so we consider there to be important differences of meaning behind the use of "consumer", "customer", "client", "user", etc. We will conclude this paper by returning to this question and suggesting how these difficulties might be addressed. For the time being, however, we will continue with the use of the term "customer".

But to anticipate the conclusion, in this paper we link together some of the current evidence and experience in consumer and industrial market segmentation studies. The primary consequence of this work is to refocus our attention away from the concept of the product market, a single or multiple resource to be exploited by businesses, towards the concept of the active customer: the customer who uses the various producer offerings by configuring them in such a way as to support his or her needs as best as s/he is able. Such a refocusing suggests a parallel view of market organisation in support of such active customers. In this respect, we echo Wroe Alderson's writing, and are able to develop his ideas by looking more closely at the ways in which channels of distribution are able to balance the interests of the systems that they link: active customers; and the businesses supplying the channels of distribution (Hunt, Muncy and Ray, 1981). Our conclusion is that the word 'niche' has been used to support a view of market organisation which has encouraged a relationship between businesses and customers which does not consider the effect business has on its customers. We will argue that the view parallel to that of "market organisation" is that of "demand organisation".

TO NICHE OR NOT TO NICHE

Business interacts with other businesses which themselves interact with other businesses, and so on until the chain of businesses reaches an end-use. Looked at from the point of view of a business, it is natural to place the customer in the environment of the producer. Business can be defined therefore in terms of its niche - the nature of its interaction with its environment.

Much evidence suggests that in the process of consumption, a great deal of hidden work is done by the customer between the time when the product is bought, and the time of its ultimate use. Such evidence includes both the continued growth in the Do-It-Yourself market, as well as the significant proportion of time given over by the 'housewife' (male or female) to what Illich (1981) has described as "shadow work" - unpaid and conventionally unproductive work which is nevertheless necessary to render products or services usable. Some have also argued that the expansion of the black economy and the rediscovery of barter and non-market transactions represent an attempt to develop more effective means of building meaning into work. Increased leisure, voluntary or enforced, and higher levels of education combined with poorer prospects for future employment may well force the meaning of work to shift in order to include more of this 'shadow work' long before new employment can be created within the current meaning of work.

The implications of this perspective is nevertheless that 'business' can extend its activities further and further into its environment, transferring what was before shadow work into the economy - an economy which, as a result of this process, becomes increasingly a 'service' economy.

The niche

The 'niche' metaphor has been appearing regularly in the recent marketing literature. This development is hardly new, however, since Alderson wrote in 1957:

"Some of the key concepts in this book are drawn from the interplay of economics and biology.... and ecology... (which) is currently contributing to a deeper understanding of organised behaviour systems in human society." (p.64)

Much more recently, Achrol and Appel (1983) have suggested that the related field of sociobiology offers interesting new insights into issues of marketing and corporate strategy. They are not alone: Henderson (1983), one of the most influential of the corporate strategists of the sixties and seventies, has also turned his attention to such analogies with a focus on the concept of 'fit' between the business and its environment. There have however been others who have been leading in this direction: in particular Hannan and Freeman (1978) and Aldrich (1979). Indeed as Van de Van (1979) explains in his review of Aldrich, the concept of 'fit' itself raises some difficult interpretational problems which have to be resolved before any strategic prescriptions can be derived.

Despite this, however, the related concept of 'niche' strategies have been widely espoused in the strategic literature, most recently by Galbraith and Schendel (1983) as one of the identifiable strategy types, probably directly analogous to specialisation (Utterback and Abernathy, 1975; Woo and Cooper, 1981) or 'focus' (Porter, 1980).

The range of application has also been further extended by the fact that as Hannan and Freeman (1978) indicated, there are considerable options in terms of the level of aggregation of the unit of analysis above that of the 'fit' between a product and its market. Hence, whilst they concentrated on types of business, Aldrich (1979) and most of the strategy writers were focusing on the individual business, whereas in the marketing area Buss (1983a) was focusing on the individual marketing instruments within the business itself.

But when applied at the level of the business, the 'niche strategy' approach creates a problem simply in being named as such: it is presented as one of a choice of generic strategies. And yet, how can a business relate to its environment in a way which is not referred to as its niche, if 'niche' is taken as referring to the nature of the fit between product-and-market or business-and-environment?

When is a niche not a niche

If we define a niche as a particular set of customer relationships sustained by a particular business activity, across which the business outcompetes all other businesses, then in a competitive environment all strategies must involve a questioning of the business's niche or niches. This is the broader meaning of the term. To categorise only a subset of such strategies as 'niche strategies' is therefore to suggest a somewhat reduced meaning of the term. Thus for example, within the strategic management arena, there does seem to be a reasonably consistent attempt to equate 'niche strategies' solely with high cost approaches (Galbraith and Schendel, 1983). However, from the point of view of the broader meaning of the term, any successful low cost high volume business must also have discovered a viable 'niche' for its activities. The reduced meaning of the term appears to come, therefore, from restricting its use solely to the level of the product's fit with its market. Thus a low cost high volume business does not seek to secure a particular relationship between a business activity and its customers.

This restriction of meaning is evident in the way in which the related concept of 'fit' is used. For there to be a good 'fit' between the business and its environment, it needs to specialise in supporting a particular 'niche' in the market. In Porter's (1980) taxonomy of generic competitive strategies this involves being focused. Porter talks about focus as follows:

"In coping with the five competitive forces, there are three potentially successful generic strategic approaches to outperforming other firms in an industry: overall cost leadership, differentiation and focus. Sometimes the firm can successfully pursue more than one approach as its primary target, though this is rarely possible.... effectively implementing any of these generic strategies usually requires total commitment and supporting organisational arrangements that are diluted if there is more than one primary target." (p.35)

From our point of view, for a business to pursue a strategy of achieving overall cost leadership, involving achieving a low cost high volume business, the business must also have discovered a viable 'niche' for its products - a segment of the market within which its products are competitive - even though this cannot be defined as a particular relationship. The business therefore must be focused in relation to that segment. How can overall cost leadership involve not being focused therefore? Equally, differentiation must also involve segments of the market in which the business'

products are competitive, so again the business must be focused. What then is focused or focused on in one case and not in the others?

Two difficulties appear to arise here. The first, for marketing as a discipline, is that large areas of strategic choice appear to be excluded from its domain (insofar as the marketing discipline is defined in terms its object - the niche). The second difficulty is that the methodological issues associated with defining 'niche' in its broader sense appears to be one of not being able to assert the particular nature of the relationship. This difficulty can be seen in the methodological issues of defining the nature of 'generic' products.

Researching Market Organisation

Developing 'generic' products is an example of a cost leadership strategy. What implications then does the use of the restricted meaning of the term 'niche' hold for the sort of market research that is done, and, more particularly, for the ways in which it is interpreted? A particular example of the methodological difficulties of defining 'niche' in its broader sense is reflected in the difficulties of defining generic grocery brands.

There has been extensive research on such brands over the last few years which can be summarised into two broad conclusions:

- i) generic purchasers are seen as having lower incomes and being thrifty whereas in fact they are on average significantly better educated and have higher incomes (Kono, 1983; Wheatley and Jones, 1983; Evans and Beltramini 1983).
- (ii) situational variables appear to have only limited explanatory power with respect to usage of generic products (Rosen and Sheffer, 1983) .

Much of this market research is predicated on a traditional economic trade-off model with generics being regarded as lower quality but cheaper. Such a preconception leads to an a priori model of quality and perceived risk in the choice between generics and leading brands that means that the first conclusion above becomes self-fulfilling. The second conclusion however is tantalising because, in identifying usage situations in terms of situational variables, they do not follow an approach which could reveal the customer's definition of situational variables, such as could have been the case had they adopted the approach recommended by Day, Shocker and Srivastava (1979, p17):

- "1. Free response plus repertory grid and focused group methods are used to elicit usage situations associated with generic (sic) need.
2. A typology of usage situations is then developed from a principal components analysis of the products-by-use matrix. Both uses and products are plotted in the reduced space, and a typology of uses derived from factorial combinations of different levels of the independent dimensions of this space.
3. A new sample is employed to obtain a measure of the suitability or appropriateness of each brand or product for each of the usage situations in the typology."

Such an approach to usage segmentation would have started with a group of current users of generic products, and would have developed from their responses a set of significantly different situational variables. Without such research it is dangerous to speculate on the results, but some

hints can be obtained from Wheatley, Chiu and Allen (1981) that the important distinction is much more likely to be between groupings of product categories which implied a rather different concept of usage situation. These categories would relate more to the customer's perception of the nature of the usage situation than to the nature of the product itself. This would suggest that the overall focus of much market research into generics is misplaced: the nature of usage situations should be the primary focus of research, with the nature of the product's positioning becoming a subordinate question.

At the heart of the difficulty in the market research lies 'niche' assumptions about the product characteristics and perceived risk in establishing levels of demand - assumptions based on the economics of production. Research on attitudes to generics has revealed considerable confusion on the issue of relative product characteristics (Murphy and Laczniak, 1979; Wheatley, 1981). After all, 'generic' products are all the same! In contrast, an approach which researched the ways in which customers defined usage situations would wish to research precisely that which niche research has taken as given: the distinct ways in which customers define not so much the relative product characteristics as the relative characteristics of the usage situations in which purchase of the product is a constituent part. We can say that, instead of approaching market research in a way predicated on establishing market organisation (of niches), the approach needs to be predicated on establishing demand organisation.

ESTABLISHING DEMAND ORGANISATION

Setting Standards

From the point of view of the producer, debate about product characteristics is debate about standards as they apply to products - the ways in which products and/or services are organised in relation to the customer. In the long run, who sets standards for a particular product dominates the ways in which demand is formulated for that product. Setting standards depends on the extent to which individuals are in a sufficiently powerful position to influence the nature of the product. What governs the emergence of this position?

If we examine the three broad categories of grocery product - national, private label and generic - we see three different loci of power over the setting of standards:

- the individual manufacturer over national products,
- the individual retailer over private label products, and
- the industry over generic products.

The first two clearly reflect 'niche' power situations - situations where the particular nature of the product-market relationship makes it possible for the manufacturer or retailer to set the standards. But what is happening in the third case of generic products? What kinds of balances of power are concealed behind the word "industry"?

The only research which will reveal it will be research which focuses not on attitudes and behaviours with respect to product categories, but on the distinct forms of usage situation through

which relative quality comes to be defined: research which focuses on demand organisation. It is no surprise that Kelloggs' current advertising slogan is "If it doesn't say Kelloggs' on the packet it isn't Kelloggs' in the packet." The question is, does the customer think it matters?

An approach to researching demand organisation therefore begins to address a new kind of issue: standards. Many retailers have, over the years, developed sophisticated ways of monitoring and controlling the performance of their third party suppliers. In some instances, individual retailers' standards in some product fields have become the standards by which others are judged: the best example probably being Marks and Spencer in the UK. Similarly, in technology related areas, the commercial battle over who controls the industry standards has rightly been seen as the key issue. Again, a recent example has been the worldwide battle between VHS and Betamax formats for video-recorders, now fairly clearly won by VHS at considerable commercial cost to Sony.

The existence of agreed standards are an obvious form of demand organisation which can allow the customer considerable scope in how s/he is able to configure his or her use of products or services within the context of his or her particular usage situation. The role of the individual producer in asserting standards however has not always been judged to be in the best interests of the customer. It is for this reason that areas such as telecommunications and the provision of health services, to name just two out of a very large number of possible candidates, have been seen as matters of public policy. Recently, the whole process of privatisation and the subsequent questioning of the basis on which privatised industries are regulated presents this issue in graphic detail.

The issue of standards does not stop at the point at which it becomes a matter of public policy however. Much of the thinking underlying the formulation of public policy is itself under-pinned by niche assumptions associated with a paradigm of producer economics - just as was argued to be the case for market research into grocery products. The difficulties faced in arguing the public interest with respect to the market for micro-computers is a case in point: Microsoft has been moving towards 'organising' demand not only by aggressive product marketing, but also by developing strong links with third parties with all their attendant implications for investment, exports and employment. How is the customer's interest to be argued in this carve-up between corporate and national interest?

To research demand organisation therefore is to become involved in much more than a debate over the effective organisation of producers' capabilities, and the ends to which they should be organised. This is a debate about the relationship between competitive strategies and the business architectures which sustain them.

The Cluster Approach

Being responsive to the customer in his or her context is difficult to manage within a niche approach. For example, standardisation of the customer, within the terms of the producer's definition of its customers, is one of the characteristics of the niche approach. As long as the form of such standardised procedures cannot be made variable in relation to the customer's context, therefore, they actually prevent the producer from making his products and services more responsive to the customer's needs. If we accept the current usage of the term "niche" in the marketing literature, then we need a parallel term for an approach predicated on the customer's context. Let us call this a "cluster" approach.

The difference then between these two parallel approaches is that whereas the cluster approach shares with the customer some of the task of balancing producer capabilities with customers' needs, the niche approach seeks to subordinate the customer's needs to the producer's capabilities.

An example of this is to be found in UK Brewing. In most UK Brewery firms, the traditional product management system has been overlaid on a functional organisation. However, most Breweries also have tied outlets through their systems of tenants, so that the functional organisation has also had to provide a means of managing the range of outlets. (Although recent public policy changes in respect of the 'tied' relation have accelerated the shift away from this.) This has in general produced a product-function matrix:

Functions					
Brewery	Distribution	Tied	Managed	Free	
					Mild
					Bitter Products
					Lager
					Cans

The explicit existence of retail outlets within the producer organisation creates stresses and strains that are often hidden for other producers who only face retail concerns via independent firms and market transactions. For instance, at the tied outlet level it is clear that customers' use of the outlet is influenced primarily by manipulating such 'intangibles' as decor, atmosphere, tenants' behaviour, and car parking. Such 'intangibles' fit uneasily into the common customer model adopted by product and brand marketing perspectives, with their strong focus on the impact of 'tangible' product-specific factors.

The need to manage this range of activities within one organisation has resulted in a range of organisational innovations amongst Brewers. Some have adopted the solution of separating off retailing activities from production and distribution and effectively uncoupling the producer from the customer with the producer's niche market being the retailing organisation. Others have tried to reconfigure their organisation in a way which reflects channel segments rather than product segments, and have produced a service/customer usage situation matrix:

Services					
Cellar Services	Buying	Contracts	Beers	Training	Estates
					Pubs
					Clubs Usage
					Shops situation:
					Multiples

Hence what were formerly products have been treated like services, and thereby put on a par with a lot of other services which within the product/function matrix had always been regarded as of

minor significance to the business' viability: overheads to be minimised. Viewed in these terms, the characteristic of all these 'services' is that there is an active relationship with the customer defined in terms of usage situation.

Now the interesting problem becomes one of selecting which of the possible service elements the business can most appropriately provide to the outlets in an overall portfolio of services. This process of configuring an appropriate set of services in relation to a particular form of outlet is therefore the process of configuring a channel: the "cluster" approach. "A particular form of outlet" has become a particular way in which aspects of the customer's needs have become organised as a particular form of outlet, reflecting a particular form of demand organisation; and the cluster approach becomes, therefore, a way for the Brewery to couple its own organisation to that of the customer. The key to the development of an effective cluster approach lies therefore in effective coupling of organisation.

In such a reconfiguring of a business, the issue of what services should be provided internally becomes central. If there is a well established outside supply of accountancy services, why provide them internally? Why invest to produce soft drinks when there is a ready supply of soft drinks already looking for customers? As a result of such questioning, even though the structure of services provided by the business itself may well become slimmer, the business' organisation becomes far more complex as it develops the know-how to deploy a range of services flexibly and competitively in relation to its customers as a result of trying to couple with customers' needs: to adopt a cluster approach.

But a cluster approach also presents new challenges in determining the identity of the business as a whole - the corporate entity. If not defined by its products, then by what is its identity determined? Our answer is that its identity must be defined through the relationships it chooses to sustain.

WHO IS IN WHOSE NICHE?

Structure and Organisation

If we make primary the relationships which a corporate entity chooses to sustain with its environment, then we are invoking a notion of the structural coupling of the organisation of the corporate entity with that of its environment. Maturana and Varela (1981) provide a framework for defining businesses in relation to their environments in which a distinction is made between structure and organisation. Maturana (1981) later summarises this distinction as follows:

"A business may be characterised as a composite system which exists in the space defined by its own components. The relations between the components that define a composite unity as a composite unity of a particular class of business constitute its organisation. In this definition of organisation the components are viewed only in relation to their participation in the constitution of the business that integrates them. For this reason nothing is said about the properties that the components of a particular business may have, other than those required by the realisation of the organisation of the business. The actual components together with the actual relations that concretely

realise a system as a particular member of the class of businesses to which it belongs by its organisation, constitute its structure. Therefore, the organisation of a system - the set of relations between its components that define it as a system of a particular class - is a subset of the relations included in its structure. It follows that any given organisation may be realised through many different structures (i.e. is polymorphic)." (p 24)

In these terms, the distinctiveness of a business will be expressed by its organisation: the particular way in which it organises the use of its structure. In other words, an organisation *qua* corporate entity can sustain multiple organisations *qua* ways of conducting business activity.

If we understand a particular organisation of business structure as a way of sustaining a particular set of relationships, then let us define the way in which the corporate entity constitutes itself as a whole as its architecture. This architecture will determine the range of possible relationships which the corporate entity can sustain with different ways of conducting business activity (which may well require there to be redundancy in the business structure). Taking the example of the Brewing organisation, how are we to think about this shift from a 'niche' to a 'cluster' approach?

r-type and K-type Architectures

Fundamentally, competitive strategy concerns itself with the ways in which businesses make choices about how to expend time, money and resources in sustaining their viability. The particular ways in which a business apports its time and money reflect the particular ways in which it has specialised in relation to its environment, and therefore says something of the nature of its niche. The more specialised the business, the more efficient will be its use of time and money in relation to its niche. What then limits specialisation?

Analysis of specialisation starts from the logistic growth model, which contains two parameters generally denoted by 'r', the natural rate of reproduction of the business formula, and 'K', the capacity of the environment to support a given level of activity by that business formula (Hannan and Freeman, 1978). Thus in general, the r-strategic business allots more time and money to reproducing its business formula, whereas the K-strategic business concerns itself more with varying its business formula in response to its environment. This logistic growth model has been used to distinguish between "r-strategies" and "K-strategies", the former being a volume approach, and the latter being a specialisation approach (Weitz and Wensley, 1983). Such an approach has some appeal in that it does approximate to the evidence that in new markets the benefits first go to the high volume, high growth producers i.e. the r-strategists; and as the markets mature, the successful firms then tend to be those that specialise (Hall, 1980) i.e. the K-strategists.

In these terms, the analogy is superficial. The concept of specialisation above involves the introduction of competition between business formulae *qua* species, and although this is not incorporated in the simple logistical growth model (Pianka, 1978; Buss, 1983b), it is implied by the formulation of the growth model itself; while the level of population includes r-type competition within the species. But the distinction is of interest, nevertheless, because it refers to the business' behaviour when the size of the business exceeds the carrying capacity of its environment. In these circumstances, the r-strategist shares resources equally amongst all its competitors, with none therefore getting enough to reproduce and as a consequence the business and its competitors dying out; while with the K-strategist, this sharing does not occur, so that only

a proportion get all they need to reproduce, and the remaining competitors excess to the carrying capacity of the environment die. But if we say that all forms of specialisation based on a business formula are r-type, then what constitutes K-type behaviour? On the face of it, therefore, to call a business r-strategic is paradoxical: it is a business which has no strategic capability. But this depends on a notion of 'strategic' which is enactive, rather than intended or emergent.

Looking behind the logistic growth model, the r-type and K-type distinction reflect two types of strategy for adaptation, both of which exist in all species, but the relative importance of which varies in determining the long-term survival of the species. "Adaptation" here means the modification of the form of structural coupling between the species and its environment in a manner which sustains the species' viability. Thus the r-type strategy depends on the rate of reproduction of the species, so that adaptation takes place between generations through mutation. 'Mutation' means genetically determined new forms of organisation of structure. Insects are classically r-type.

In contrast, the K-type strategy involves the species having acquired some degree of structural plasticity - structural redundancy which makes it possible for the species to be flexible in the form of its organisation over time. Vertebrates with some level of central nervous system exhibit K-type behaviour, with the human species being the most highly developed form. Thus, while r-type behaviour involves short lives and rapid breeding to exploit niche opportunities, K-type behaviour involves long(er) lives and slower rates of breeding coupled with higher capacities for learning.

This understanding of r-type and K-type strategies accepts that r-type species are more 'specialist' and K-type species are more 'generalist', but grounds the distinction on the strategies of adaptation of organisation. This contrasts with Hannan and Freeman (1978), who sought only to describe the differences between business's strategies as r-type or K-type depending on the extent to which the 'fit' of the business with its environment was concentrated or dispersed: whether the business was a specialist or a generalist.

In these terms, the r-strategic business is therefore indiscriminating in how it manages the deployment of its internal resources; whereas the K-strategic business does discriminate in the how it manages the deployment of its internal resources. r-type and K-type therefore become distinctions concerning the organisation of how structure-functioning of the business as a whole - the corporate entity - is deployed: what we refer to as the architecture of the corporate entity. What then are the implications of this r/K distinction for how specialisation is thought about?

Environmental Granularity

The effect of spatial or temporal instability of a niche can be understood in terms of the concept of the 'granularity' of the business' experience of that environment. 'Granularity' refers to the discontinuous nature of the distribution of customers on both a spatial and a temporal basis, so that certain kinds of environment can be very heterogeneous, with the distribution of customers being both very localised, and possibly also very temporary.

For an environment to be 'fine-grained' is for customers to be continuously distributed across the environment, so that there is no need for the business to select customers in its environment. For an environment to be coarse-grained, either on a temporal or spatial basis, is for the customers to be discontinuously distributed in 'patches' within which customers may be continuously distributed,

but between which there are none. Thus the more coarse-grained the environment, the more dispersed are these patches.

It follows that the 'granularity' of an environment determines the amount of time the business will have to spend finding suitable parts of its environment relative to the amount of time spent engaging with customers; and the extent to which its experience of the environment is 'coarse-grained' or 'fine-grained' will be determined by the characteristics of the business and the precise nature of the specialisation it has in its relationship to its environment. In general terms therefore, for a given form of specialisation, the more specialised its niche is, the more coarse-grained will be its environment; but for a given level of specialisation, within the constraints of carrying capacity, the larger the environment is the better. Hence the attractiveness of globalisation.

But where a specialised business faces a coarse-grained environment, how are we to think about the specialised ways in which the business finds its patches? Our answer is to use Porter's generic strategies to distinguish between different types of r-type architectures. Porter's generic strategies, therefore, are all forms of r-type specialisation:

- cost leadership is concerned with minimising granularity for a given form of specialisation,
- differentiation is concerned with establishing a form of specialisation which maximises granularity within the constraints of what it can span, and
- cost or differentiation focus is concerned with establishing a form of specialisation which outperforms either the cost or differentiation strategies. (The 'niche' strategy in the narrow sense).

We might expect uncertainty about the domain of its niche would encourage a business to be K-type, along with uncertainty about the temporal or spatial stability of its environment. This is not clear. True that for a given form of specialisation, when faced with changes in its environment, the business will be forced to adapt, but set against this will be the business' tendency to become r-type as it seeks to make more efficient use of its environment for a given form of specialisation, and therefore to be in a better position to compete. Each architecture has its own strategies of adaptation, therefore: the r-type business will mutate and/or get to patches elsewhere in its environment which have not changed. (Hannan and Freeman, 1978); whereas the K-type business will tend to develop new ways of relating to its customers (polymorphism: Levin, 1968), and learn to vary the nature of its relationship.

Studying the nature of the business' relationship to its 'niche' therefore leads us to consider the r-type ways in which the business competes for customers within its niche, and in which it is able to respond to discontinuities in the distribution of customers in its environment, given the particular way in which it has specialised. But with the 'cluster' approach comes K-type ways of competing for customers. Both of these strategies of adaptation are fundamental to the continuing viability of businesses. It is ironic that it was precisely these adaptive characteristics of the ecological analogy which lead Anthony (1565) to dismiss it very early on as "being of no direct relevance".

But if we have placed the whole direction of *Porteresque* thinking about competitive strategy under r-type architectures, what forms of competitive behaviour would we place under K-type architectures?

The Cluster approach: exploiting K-type architectures

If we return again to an ecological understanding of "niche", then the relationship between an organisation and its environment is a two-way dynamic, in which each is adapting to the other. Thus there is no necessary reason why we should look upon the customer as forming the natural environment for the producer. The economy of producers also collectively create the environments in which customers live, so that it is equally possible to see employees and customers alike as living in an environment formed by producing organisations. Thus customers are an organisation of producers as much as producers are an organisation of customers. Insofar as the ways in which producers specialise in the range of support they make available to the customer, in what sense can it be said that producers' specialisation is limiting or constraining the development of organisation in the customer?

Insofar as we criticise the 'niche' approach to strategy, therefore, it is precisely because it is based on a view of the market which supports producer specialisation, and does not support its parallel form - that of supporting customer specialisation. Such a view not only leads to producing products in ways which tends not to include the producer supporting the customer's usage situation over any length of time. The consequences of such a view are that it forces the customer's use of the business environment formed by the collective economy of producers to be generalist with respect to their own usage situations, so that, from the point of view of the producer, aggregate customer behaviour can remain stable (Ehrenberg 1969) despite the existence of a temporally and spatially unstable domain of products and services. Perhaps it is for this reason we are faced not only with unemployed workers, but unemployed customers too - the economy of producers is unable to support either form of specialisation. We refer to this type of producer behaviour then as niche behaviour because it concerns itself not with the customer, but with a particular form of customer interaction with the producer: the niche.

Why should it matter whether or not the producer supports the customer? Because the producer is paid by the customer, and in the long run, if the producer does not support the customer, then s/he will go elsewhere - whether by means of import substitution or emigration it matters not. As long as there is a significant shortfall in the carrying capacity of the producers, it will be in the interests of both producer and customer that the producers choose the largest possible niches supportable by them given their capabilities, and to supply those niches as efficiently as possible - the niche approach. In a mature economy however, that is to say in an economy where there are mature customers who for reasons of their own competing identities wish to specialise and therefore to interact with their environment in a more coarse-grained way, such niche behaviour will begin to create forms of patchiness in market organisation which is therefore counterproductive in the producer's ability to support customer usage situations. The most obvious examples of where this has become an issue for the producer lie in the general area of services markets. Here the crucial impact of the customer's context is widely recognised as a highly significant factor in influencing customer satisfaction. In service areas, the need to consider the customer as active is evidenced by the fact that just providing self-service facilities can actually increase the value of the experience (Bateson, 1983).

In order for the producer to support customers' specialisation, the producer must be able to couple his organisation with the customer's organisation: to pursue a cluster approach so that the tighter the coupling, the nicer the fit between the producer's product or service and the customer's

context. To achieve this, the producer must learn to use what plasticity there is in his structure to support as wide a range of customers' usage situations as is viable - to be K-type. But this plasticity of structure is what the niche approach refers to as structural redundancy. Thus the K-type architecture requires the exact opposite approach to that adopted by the niche approach which seeks to remove as much redundancy as possible in order to make its relationship to its particular market niche as efficient as possible: an r-type architecture. Hence the evidence that it was very difficult to reorganise Ford away from a "Model T" view of the customer towards the more diverse producer organisation developed by General Motors (Abernathy and Wayne, 1974). The irony therefore is that in order to pursue a cluster approach, the producer must develop the ability to capitalise on his redundancy by being able to organise the deployment of his structure of know-how and capability so as to couple with as many distinct forms of customer usage situation as is possible.

The customer as an endangered species

If we re-assert the concept of the customer and look at the choices of behaviour s/he seeks to make from his or her point of view, so that the business becomes part of the customer's environment, then granularity in relation to the organisation of the market takes on a new significance. Granularity, resulting from increasingly dynamic differentiation of demand, is an inherent threat to the r-type organisation, so that strategies of standardisation of demand organisation become very attractive. In contrast, for the K-type organisation, granularity is inherently attractive, in that it gives the K-type organisation the opportunity to outperform the r-type organisation.

Such an analysis of the market from the customer's point of view leads us to identify a set of situations in relation to which the customer makes choices. These are the customer's usage situations, and the producer's performance within those usage situations will be chosen by the customer on the basis that they best support what s/he wants in those situations. The best approach to defining a product field from this point of view seems therefore to be to collect customers' judgments of product substitutability directly in relation to usage situations (Day, Shocker and Srivastava, 1978).

This then, gives us our concept of an 'active' customer. Active customers require K-type architectures on the part of the producer if the producer is going to be able to organise itself around the differing requirements of customers' usage situations. By defining the market in terms of customer usage situations, we can make sense of the ways in which product groups have multiple uses. Sometimes the reasons underlying such multiple uses are obvious, such as in the case of soft drinks being used as beverages or as mixers, or, more speculatively, in situations in which the product is explicitly designed to span multiple uses, such as is the case with cars, houses, or computers; others depend on the importance of the context, such as in the case of eating out (Miller and Gintner, 1978). Analysing the market in terms of the usage situation therefore becomes the necessary corollary of adopting the point of view of the active customer. This point of view has strong echoes of Wroe Alderson's (1957) central focus on the household:

"The household is a special type of organised behaviour system providing the setting for most of the activities which are classified as consumption... the buying function tends to centre on the housewife, and she becomes more specialised and skilful in her

activity as forms of production have been increasingly removed from the home to the factory. Consumer buyers no less than marketing executives come into the market to solve problems for the behaviour systems they represent." (P 163).

Customers do more than consume then: through becoming customers and clients, the customer is able to support his or her expressions of meaning - his or her identity (Douglas, 1982). The producer has a 'market' in the sense that his performance as a producer supports forms of activity through which the customer can express his or her identity: the producer's organisation supports the customer's organisation just as the customer's organisation supports that of the producer.

Who organises demand?

r-type producers create an industry infrastructure which inevitably constrains and channels the identities which can be supported through limiting the forms of product and service on offer to the customer not only in terms of what is on offer, but also where it is on offer. r-type producers organise the market. Any individual customer faces a problem every time s/he tries to buy the things s/he needs to support his or her usage situation: the customer's environment is patchy, and depending on the adequacy of the transport and distribution systems available, the customer's use of that environment may have to be very coarse-grained. Thus the customer has to manage problems of temporal uncertainty - its not much good if the product or service is available when s/he doesn't want it - and spatial uncertainty - its also not much good if its only available outside his or her locality:

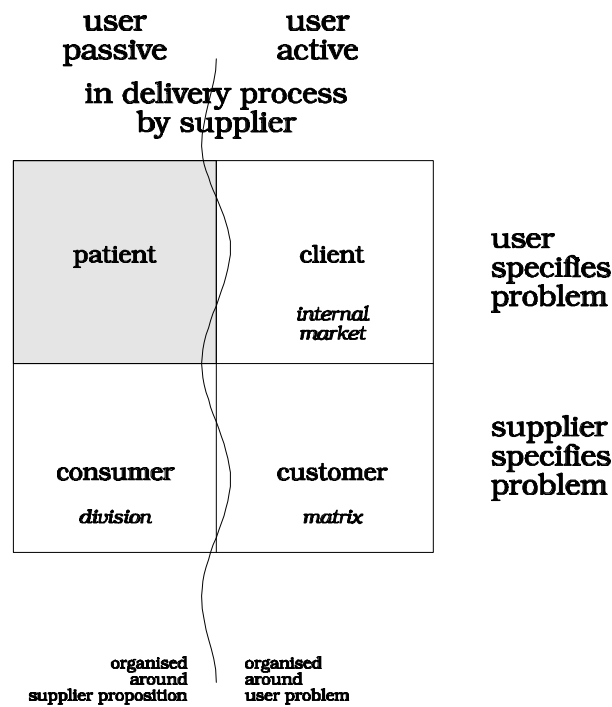
"Too frequently, marketing concepts seem to imply that the market exists in a single instance of time and that buyers and sellers are dealing with each other face-to-face in carrying out market transactions. Actually there are some difficult analytical problems in deciding just where the market is located or when a transaction begins or is completed. From the viewpoint of functional analysis, these considerations as to the dimensions of time and space may open the way to new methods of increasing the efficiency of market transactions." (Alderson, 1957, p 315)

One of the most obvious conclusions therefore is that competition is local, be it between petrol stations, grocery stores (Kan and Ehrenberg, 1984), or domestic housing developers. This is not, of course, to suggest that such local choices may not in certain instances involve national brands; rather that in each locality national and local brands compete to the extent that they are readily available. Such a view may seem obvious but, for instance, in the U.S. beer industry it has been common for strategists to suggest that there are three major strategic groupings: national, large regional and small regional brewers (Hatten and Schendel, 1978). This has tended to encourage analysts to see such groups as competing more strongly with each other than in relation to other product groups, as is indeed the common assumption in the 'strategic group' approach (Caves and Porter, 1977; Day and Wensley, 1983). It comes as rather a surprise to some therefore that in fact in any local market the local brands are competing against the national ones as well as each other, and indeed in the case of beer, have often lost out in performance terms (Hatten and Hatten, 1983).

Again therefore it is appropriate to reinforce Alderson's strong emphasis on the functional role of the distribution channel in matching and sorting products in response to customer demand as a key component of marketing activity (1957). The limitation on how far the groupings of product choices on offer by the producer can match those desired by the individual customer in relation to

his or her usage situation, particularly when spatial factors are taken into account, create what Alderson referred to as a "discrepant market" (1965). This 'discrepant market' describes the patchiness of the customer environment in which s/he will be forced to 'shop around' both by having to travel further or, in the case of services such as repair or health care, by having to wait.

If the producer is organising the market through the effects of implementing r-type architectures, then either the customer is reduced to being the passive recipient of the producer's prescriptions - a 'consumer' -. Alternatively, the customer becomes a 'patient', depending on being able to translate (or have translated on his or her behalf) his or her needs through the discrepant market into a form which can be supported by what is available. In contrast, if the producer is organising the market in response to demand organisation through the effects of implementing K-type architectures, then either the customer is just that - a recipient of what s/he wants in the form that s/he wants, because it has been anticipated by the way the producer is able to respond to him or her; or s/he becomes a 'client': the K-type corporate entity adapts its organisation to his or her particular requirements.



So coarse grained use of the environment may reflect its patchiness, or it may reflect the nature of the customer's specialisation. This customer's specialisation reflects particular ways of organising demand. The customer only becomes an endangered species therefore insofar as the producer's pursuit of specialisation makes the market organisation so patchy that the customer's specialisation of demand organisation (and therefore, potentially, his or her viability) is placed in jeopardy as a result of being forced to work within the producer's forms of specialisation. r-type architectures make customer and client forms of behaviour endangered species.

CONCLUSION

The concept of a producer 'niche strategy' depends on strong assumptions about customer behaviour: patients or consumers as passive recipients of products and services. The producer using such a concept is described in this paper as having an r-type architecture. In the long run such niche specialisation by r-type architectures will only be viable and effective on a significant scale in those market areas in which such assumptions prove valid. The continuing debate about the benefits of mass production and the growth of consumerism would suggest that at least all is not well with these assumptions.

In this paper we have invoked the concept of the active customer: the customer who demands that the producer learn to support and respond to changes created by customers who are pursuing a strategy of specialisation: cluster strategies pursued by K-type organisations. This would appear to be what Child (1972) was arguing for in his conception of "strategic choice" for the firm although he did not distinguish between the issue of choice and the concept of the customer in relation to which it was being exercised.

A clustering approach places particular demands on the organisation of a business as a whole - its architecture as a corporate entity - as distinct from particular arrangements of structure/functioning. In the context of customer demand organisation, a cluster approach will mean that the business will inevitably have to develop ways of coupling with customers: specific localities and sets of particular usage situations. The business will have not only to span a variety of small scale niches therefore but also need to be able to respond to changes in the nature of these niches. Such coupling will raise difficult problems for the centralist tendencies in many current conceptions of business and marketing strategy: local management will need to develop the skill to organise and reconfigure the nature of products and services they provide in ways which are responsive to the context of local market demand (Boxer and Wensley, 1981). In so doing, they will be challenging what is seen as the last area of absolute authority for the centre: market organisation.