The Need for Middle-out Development of Marketing Strategy

P.J. Boxer
London Business School

J.R.C. Wensley
Department of Industrial and Business Studies, University of Warwick

ABSTRACT

The current tendency to move decision making closer to those concerned with implementing decisions in order to make use of their local market and customer knowledge is timely, particularly in relation to marketing strategy. This tendency is reflected both in the shift away from broad strategic analysis and towards encouraging strategic thinking throughout the organisation; and in the emergence of more decentralised strategy development through structural innovations such as Strategic Business Units.

For the manager-in-the-middle who has historically had the task of relating the broad corporate strategies to the detail of delivering products and services to the customer, this shift in emphasis creates new stresses, for it is not possible for him to assume, even in the most established consumer goods companies, that the strategic development of such activities can be construed within the traditional marketing mix (4Ps) framework. Under such circumstances, he needs a framework which enables him to take account of the crucial interactions going on within the market's infrastructure itself between customers, competition and channels (3Cs).

If the manager-in-the-middle is then to be effective in responding to his increasingly complex responsibilities in relation to such markets, he must also be given the ability to manage the micro-organisational context within which he delivers products and services. This micro-organisational context is crucial because it determines the quality of the relationship that can be sustained with the customer. The higher the quality of the relationship, the tighter the coupling that can be maintained with the local market. Such tight coupling makes the relationship with the customer more defensible against competition. It therefore provides the basis for sustaining and developing the profitability of value-adding products and services so necessary to long term corporate survival.

INTRODUCTION

Many of the recent developments in management strategy have been defined almost exclusively in terms of product-market choices. So much so that there is much confusion as to where management strategy ends and marketing strategy begins (Thomas and Gardner, 1984). Attempts to draw such a distinction (Schendel, 1984) have often relied on a 'traditional' model of marketing function based on the product management system and the management of the marketing mix. Whilst such a model does provide a means for top management to determine an overall strategic direction, it is not always an appropriate model to use: there is a need to re-evaluate the traditional model of marketing in order to incorporate the increasing emphasis on concerns of implementation and organisation. This cannot be done without reconsidering both the overall process whereby a marketing strategy is developed and therefore, by implication, the role of top management in determining strategy.

The top management role provides a 'guidance system' which can monitor the performance of the business in delivering products or services into the marketplace (its 'delivery systems') in order to exercise some kind of strategic influence over their development. In practice, however, there are often stresses which can be observed amongst the managers who work in jobs which mediate between the business's delivery and guidance systems. Such stresses can be related to the fact that these managers-in-the-middle do not have a means of arguing strategic issues upwards on the basis of the detail of what is going on below them in the delivery system. The assumption underlying the use of the traditional marketing mix approach within the delivery system fails to provide such managers with a means of describing either the heterogeneity of customers and competition or the variety of ways in which the business's capabilities can be coupled to customer demand.

These stresses experienced by the manager-in-the-middle can be viewed from three perspectives: the bottom-up perspective, which is no perspective because although it can provide detailed insights into the individual product markets, it is too close to the day-to-day operating detail of the business (Day, 1981a); the top-down perspective of senior management who will see the issues in terms of macro-organisational choices over the resourcing of products and product groupings; and the middle-out perspective of the manager-in-the-middle himself, who, if he is able to express a view at all, will tend to do so in terms of micro-organisational choices.

This paper aims to clarify the nature of the choices open to the middle-out perspective by tracing the development of strategic thinking and its most recent manifestation in the form of top-down product-market based organisational design. We would suggest that much of the current work on such macro-organisational solutions neglects the lessons to be learnt from similar earlier organisational innovation in product management structures. If we consider the problems they are currently experiencing, there is strong evidence to suggest that a real market focus can only be achieved if the implementation of strategy allows for micro-organisational solutions based on the judgments of middle management.

STRATEGIC THINKING AND THE ORGANISATIONAL FRAME

If we examine the macro-organisational concerns of the top-down perspective, we witness over the last few years a gradual shift in product-market strategy away from an exclusive concern with forms of analysis towards a concern with both how and in what organisational frame such decisions are made. Such a shift, however, reveals further problems both with the nature of analysis itself and with the underlying assumptions about product-market boundaries. The renewed focus on the frame from which decisions are made has led to the emergence of Strategic Business Units - just possibly divisionalisation in another guise (Hall, 1978); and to an increasing concern with the need for what has been termed strategic thinking (Morrison and Lee, 1979). Strategic thinking is no more and no less than an attempt to encourage the manager to think about critical assumptions. For example, in the case of a new product launch, a frequent assumption is made of a new market segment. Strategic thinking suggests that it is necessary to judge downside risks much more in terms of the impact of the failure of such a segment to emerge instead of the traditional 'ten per cent lower sales'. Strategic thinking then becomes something to be pursued at all levels within the business and not just the top.

Alongside this development there has also been recently a re-emphasis in the marketing literature on strategic thinking in the form of the need for innovation, first developed by Alderson (1957). The central importance of the marketing function in encouraging such forms of strategic thinking has been emphasised by Hunt *et al* (1981) Simmonds (1982) and Day and Wensley (1983), amongst others. Murray (1981) suggested one could distinguish between competitive strategy - often closely allied with a marketing mix approach - and innovative strategy. Others, however, have suggested that the innovative focus has to permeate the whole marketing approach in any organisation throughout, for example, the traditional market planning system (Day and Wensley, 1983).

Hence the process of encouraging strategic thinking can also be seen in more traditional economic terms as one of encouraging entrepreneurship within the organisation. Such a view helps to emphasise the top-down problems of encouraging innovative behaviour: the *loci* of entrepreneurship are diffuse and often cut across organisational boundaries (Minkes and Foxall, 1980). Hence to ensure that the organisation thinks strategically we have had various organisational solutions such as Strategic Business Units, Strategy Centres, Matrix Systems, as well as the visionary CEO in focusing concerns and priorities (Peters, 1979). Such ideas reflect a growing concern not so much with the development of more sophisticated forms of analysis but with the development of a better understanding of both the process and the context of strategic behaviour. However, as with the analytical techniques in the seventies, we are in danger of rushing off in yet another direction without looking a little more closely at some of the hidden assumptions and trade-offs (Keichel, 1982). In particular, the two most popular forms of organisational solution - decentralised and matrix structures - both reveal further critical problems.

Organisational Solutions

Much of the writing on decentralised approaches such as Market Centered Organisations, Strategic Business Units and Strategy Centres is based on a redefinition of market boundaries from a narrow focus (for example on breakfast cereals or video) to a wider one (breakfast products or home entertainment). Ever since Levitt's classical 'what business are you in?', some business academics have kept on assuming that once a plausible answer is found, it is the only one. Breakfast products may well be a grouping, but how transferable are the brand identities or technologies from one product to another within that group as compared with between itself and other groups? In practice, the business rarely knows: as Day observed, a lot has been written about the value of Strategic Business Unit structures, but very little on how to select units (Day, 1981b).

In one sense Strategic Business Units and their variants are laudable attempts to decentralise strategic thinking. On the other hand if one really did this, the role of the centre would become very limited and restricted. It would become what one Finance Director of a highly diversified and divisionalised company described as 'hiring the right man to run the unit and firing him if it does not work out'. Even this approach, however, suffers from the limitations of the personnel function which has failed to develop any reasoned basis for involving itself directly in supporting and resourcing such strategic decisions (Manning, 1983). On top of this, the market centre groupings are fairly arbitrary, and a business takes a considerable risk therefore in selecting very rigid demarcation lines. If it then builds up an organisational and information system on the basis of those demarcation lines, it will find it very difficult to detect the inappropriateness of such demarcations, let alone change them.

Some businesses therefore try to solve their dilemma in exactly the opposite way. They institute a Matrix Organisation and avoid resolving anything until the specifics have been looked at, thus opening up as many dimensions as possible. In one particular instance a computer business had developed the following dimensions: product, technology, geography, industry and application. Lawrence and Lorsch (1967) started down this track with their concepts of differentiating the business's outputs to match its environment, while relying on integrating organisation to maintain its internal coherence. However, at some point, increasing differentiation will lead to breakdown in the integrating organisation which if not remedied will lead to the business's failure. As a general rule, a business has to be very cautious of any matrix over two dimensions. The remedy advocated of using temporary teams (Peters, 1979) to short-circuit some of the more rampant forms of complexity produced by matrix organisation looks much like a temporary form of Strategic Business Unit. Equally the use of CEO visionary involvement in order to focus concerns and priorities across disaggregated Strategic Business Units looks much like a temporary form of matrix organisation.

The challenge for top management

Therefore, in pursuing such organisational solutions, top management ends up trying to develop some form of superordinate strategy. It is typically not too clear on how to do this without one of two things happening: either top management becomes totally dependent on the information which the managers-in-the-middle can provide them with, and finds itself continually having to second-guess its management; or alternatively it ends up becoming some sort of internal capital market between individual investment alternatives thrown up by its managers. In the former case, when faced with the prospect of such dependency, top management tries to forestall it by using its power to extract the information it needs through relying on minions to do the extraction for them, thus ensuring that what is reported inevitably reflects their own expectations. Carried to its extreme this produces a kind of 'dress rehearsal' culture in which everything top management sees is put on specially for its benefit. In the latter case, top management finds itself acting solely as an internal capital market, attempting to recognise underpriced assets and realise their value by buying and selling. In this role however they face tough competition from the external stock market with its much wider range of options and wide access to information and opinion.

The response of strategic thinking, therefore, whilst laudable in encouraging attention to critical assumptions at all stages in the decision-making process cannot itself resolve the issues of the organisational frame within which any such decision is made. The current choice between decentralised business units or a matrix structure fails to address two basic problems: first the limitations of top-down strategic analysis which in one form or another underlie such design choices; and secondly, the logic for the product market boundaries assumed as the basis for organisational design itself.

LIMITATIONS OF TOP-DOWN STRATEGIC ANALYSIS

The increasing doubts about the dominance of top-down strategic analysis can be traced fairly clearly to the fact that it has been oversold. The more astute advocates were well aware that it could not do all that some claimed but their disciples were either less well informed or the commercial opportunities were just too appealing (Keichel, 1982). They therefore ended up suggesting that such forms of analysis could be used to make specific choices for each product/market unit and determine its fate in such terms as 'build, maintain, harvest'. The underlying problem with any such analysis is the need for aggregation in the first place, and hence the avoidance of the particular. Aggregate analysis such as this is difficult to disconfirm but equally difficult to interpret in any particular situation.

A rather simple and well publicised example is the relationship between market share and profitability (Buzzell *et al*., 1976). It is now widely recognised that the relationship is subject to a high degree of scatter: often at best market share only accounts for around ten per cent of the variance in return (Wensley, 1981a). This ten per cent effect would be an important consideration if, as in all applications of such statistical approaches, we were considering the averages of a large number of independent experiments. It is however the essential characteristic of so many strategic problems that they are seen more as particular one-off decisions. It is therefore most misleading to claim that such decisions should be seen as solely influenced by what is in fact only a ten per cent effect. The analyst must be very careful in translating statistical significance to practical significance.

There are also further concerns: many marketing strategists seem to be happy to make the long jump between a positive association between ROI and market share and a concept of market share as an intangible asset which is apparently consistently underpriced. Rumelt and Wensley (1981) established from the PIMS data base, which has been used for almost all of these empirical studies on market share (see Phillips *et al*., 1983), that market share was not consistently underpriced. More importantly, the value of market share seems to relate very strongly to the way in which it has been gained. The more it is gained by macro measures such as price-cutting the less valuable it is; the more by 'luck' in the sense of the PIMS data (since effective micro actions such as a new positioning approach appear as a stochastic effect), the more it is worth having. Market share is therefore an outcome measure which can have differing economic worth. To aggregate all the different processes solely in terms of the outcome state can therefore be very misleading, since to value a market share gain we must ask *how* the gain was achieved. It is necessary to distinguish between price cutting and, say, a timely investment in an emerging distribution channel. Thus even if there is some correspondence between statistical and practical significance, this practical significance bears on macro-organisational measures which can be shown to hold less leverage on the business's economic worth than micro-organisational measures taken at the operating level (Wensley *et al*., 1983).

So much for market share, but what of such timely investment in new brands, technology or distribution channels? We have slowly remembered what Knight recognised in the twenties, that profits come from taking risks which cannot be universally measured and from getting it right either by luck or 'foresight' (Knight, 1921). Timeliness is therefore a strictly competitive concept, a decision being a timely one because it is taken before others see the opportunity *and* it turns out to work. Therefore, if a business is to develop ways of seeing and acting on opportunities before others do, it will have to rely on information or analysis which is more private than public (Wensley, 1982), particularly if it wishes to behave in ways which are hard for its competition to imitate (Lippman and Rumelt, 1982).

Managing from the detail

If the business is therefore to become more efficient at allocating resources amongst its internal units it must rely on those informational aspects where it has an advantage over outsiders in an external capital market. Williamson (1975) has characterised such advantages in terms of access to private information, audit of existing performance and the facility to introduce adaptations to existing activities. An excessive emphasis on such broad criteria as market share or even the generic competitive strategy approach advocated by Porter (1980) becomes progressively less appropriate as more competitors become aware of the same form of analysis. Even worse, it may actually distract the business from developing approaches which can give it real strategic advantage based on the specifics of each situation.

The conclusion therefore is that no method of strategic analysis based on any form of large-scale aggregation of data can ever hope in itself to generate insights which can give a business a real strategic advantage over its competitors (Wensley, 1981b). This is not to say of course that such analysis is not of use as a backcloth against which managers can make decisions - analysis based on important structural characteristics, like, say, the experience curve effect, should be part of a business's assessment of its present position. By incorporating such common knowledge in its assessments, the business starts addressing strategic issues from a basis which is on a par with its competitors, but the business should not stop there: it should go on to add the considerable quantity of informed, specific and local knowledge held by its managers in order to refine the strategic analysis into one which can lead to its securing a real strategic advantage.

THE DISINTEGRATION OF THE PRODUCT-MARKET AS A UNIT OF ANALYSIS

Top-down management has traditionally exercised control over the demarcation lines between products and product groups by monitoring the profit performance of product groupings. This control is based on information built up from data using product-markets as the unit of analysis. However, in the end such a base is only as sound as the assumptions about consumer behaviour which underlie it. If customers do not see purchase choices in terms of relatively fixed product market boundaries, then there will be little commercial logic in organising business activities in such a manner.

In marketing practice, the control of product-market performance has been reflected in a product management organisation. Much emphasis, however, has been given to the 'fact' that business unit managers are not just product managers by another name. On the other hand, much now written about the role of SBU managers (Hall, 1978) sounds very much like the older concept of product manager as 'product managing director' (Medcalf, 1967). This suggests that the future of the SBU manager might be expected to show similarities with the history of the development of product management.

The development of product management

The marketing function itself developed in organisational contexts with substantial advertising and promotional budgets and a significant market research activity. This has meant that marketing departments were most commonly to be found in those businesses where a management structure is required to administer substantial expenditure. The innovation of the product/brand manager system has been central to the continued development of the marketing function in such companies. Alongside the development of marketing departments there has emerged that powerful notion of the marketing concept and the four Ps: place, price, product and promotion. This has reinforced the product/brand manager system. The stage has therefore been set for a happy coincidence of practice and theory. The product manager has been concerned with the management, and indeed, in some of the more optimistic approaches the optimisation of the marketing mix for his individual product. The 4Ps have become the name for a marketing approach in a wide range of organisations, the keystone of which is the management of the product or brand; and the marketing function has become one of the necessary functions required by a business for delivering products or services into the marketplace.

The concept of the product manager actually exercising control over the various elements of the marketing mix for his product however has proved naive. Product managers have been variously seen as influencers or information gatherers rather than strict decision makers (Cunningham and Clarke, 1976; Gemmill and Wileman, 1972; Luck, 1969). This is an inevitable consequence of having to work within a complex organisational frame in which other managers at the same level are competing for resources and attention. Not only this, but it has become increasingly clear that in many markets the context in which a product is purchased is of considerable significance. This is directly analogous to the economist's recognition that price discrimination 'more often involves offering the same prices to all buyers, but with a structure for prices for different points in time, places of purchase or product types'. (Nagle, 1983, p14). Context therefore can be seen as a basis for differentiation in relation to either or both of time and place for a product which is otherwise the same. Thus a fundamental problem arises when the product dimension itself is relatively unimportant compared with time and place. In most established consumer goods companies the major manifestation of this problem has been the emerging power of the distribution channel. For example, Pepsi abandoned a product dimension in the face of more critical distribution concerns.

In the traditional 4Ps model the role of the distribution channel was often seen as synonymous with selecting the outlets most suitable for the product. Kotler in his widely used *Market Management* textbook says: 'A marketing channel is essentially a method of organising the work that has to be done to move goods from producers to consumers' (1980). The recognition of the independent role of channel members is downplayed compared with the manufacturer's concern for his product. Beyond this it was merely a question of operational efficiency to ensure that the channel between the manufacturer and the customer was working well. The role of selling was therefore to ensure adequate distribution for the manufacturer's products and as such was clearly subservient and often a relatively insignificant part of the overall marketing function.

The loss of stability

The 4Ps approach assumed that place, price, promotion and product were sufficiently stable over time for the product management system to be able to manipulate them to its own advantage. The response to changes in the overall marketplace which might threaten this stability was twofold. The first response was to try to neutralise the effects of the change as much as possible in order to create at least local stability in the marketplace. This was achieved by invoking cartels, trade restrictions or government regulation. In the retail trade, it has often been suggested that associations of manufacturers should be set up to act as a countervailing force to growing retailer power. Similarly a number of manufacturers have attempted to stabilise the market by refusing to supply certain types of outlets, such as in the case of Raleigh bicycles. Finally, strong efforts have been made in various areas to retain manufacturers' control through Retail Price Maintenance. It is noteworthy that in the one area where RPM was upheld - publishing - there was a strong manufacturer's association - the Publisher's Association. Even in this case however, competition, often in very direct price terms, has increased through new outlets and new distribution systems such as mail-order. Hence many of the attempts to create local stability in the marketplace failed and businesses were forced to find ways of integrating the increasingly complex trade-offs between growing numbers of permutations and combinations of the 4Ps.

The second type of response led to multiplying co-ordination committees, lengthening decision chains and introducing such innovations as tactical product managers (trade) alongside strategic product managers (brands). However if the basic simplifying assumptions of relative stability between the elements of the marketing mix, on which the product management system was based, were in fact becoming invalid, then overall market behaviour would never again be such that either product characteristics or product classes could be relied upon to remain distinct stable phenomena. But since the whole product management system had been built on this simplifying assumption, it followed therefore that the whole system might have to be re-thought.

The inversion of the manufacturer's power

Another approach is available however in situations in which there is a question of responding in various ways (customised products, package deals) to individual sales contacts. This became a particularly obvious problem where multiples began to take a significant proportion of a manufacturer's turnover. The six major multiple groups now account for around 40 per cent of all grocery commodity volume in the UK. In these cases the manufacturer's whole power relationship with its market has begun to turn on its head as the manufacturer becomes part of a multiple's portfolio of producers instead of the multiple being part of the manufacturer's portfolio of distributors.

This inversion of the manufacturer's power relationship with its market evidences a change in the nature of the customer. Manufacturer's brands can be traced back to a time when customers would pay for the consistency and security of particular products certified by particular manufacturers. In many markets, however, the world is now very different. There is little evidence, for instance, that store brands are seen as inferior to manufacturers' brands. Indeed, some of the evidence in the USA suggests exactly the opposite: the plain labels or generic brands have taken proportionately more custom from the manufacturers' brands than from the store brands (Murphy and Laczniak, 1979). Other UK evidence certainly suggests that generic brands do not only threaten store brands (Nielsen, 1983). Ehrenberg and Keng's research on store loyalty (1983) shows that customers for a product are mostly not the same from week to week; that loyalty is also limited for specific brands; and that loyalty to own label brands is much the same as loyalty to manufacturers' brands. Thus not only is there an inversion of the power relationship, but the focus of competition itself seems to be shifting away from the product.

A NEW COMPETITIVE FOCUS: THE EMERGENCE OF THE 3CS

A different approach therefore is required based on the *interactions* between the business and its customers as primary phenomena and so to focus the business organisation on the fundamental dynamics of competing in the marketplace. Thus the 4Ps become replaced with the 3Cs (Law, 1983): Customers, Channels and Competitors. Recently Ohmae (1982) coined the term, 'strategic triangle', to encompass his 3Cs of Customer, Competition and Corporation. It is noteworthy that the concept of channel remains undeveloped in his book. We would not wish to suggest that the 4P approach has no remaining use, however. It remains a limiting case based on certain restrictive assumptions about the nature of customers, competitors and channels. If such assumptions remain valid, the 4Ps remain a powerful simplifying framework for marketing management. On the other hand, we would suggest that even in traditional consumer goods companies the scope of such assumptions is contracting. Outside such traditional consumer marketing contexts, the assumptions have never had much validity.

The 3Cs have always been there to some extent in the marketing literature. Levitt's question 'what business are you in?', was phrased almost exclusively in terms of end customer needs. But, after concluding that the railroads were in the transportation business he apparently did not need to ask who else was in that business as well. Thinking in terms of competitors has returned more recently, particularly because of the emphasis given by Porter (1980) to the impact of competitive forces. Competitors almost always have a portfolio of their own products, and therefore any business relationship with competitors will depend crucially on the overall strengths and weaknesses of its portfolio, as well as on their differing strategies. Competition here however is very much about the degree of defensibility or imitability of the business's relationship with the customer. Finally, Alderson (1965) considered very directly the economic logic for the channel system in the 1950s and 1960s, but only recently have channels re-emerged as an important element as their bargaining power has grown.

We are suggesting therefore that the product management system provided a powerful means of ensuring continued business success if three simplifying assumptions could be accepted. First, the product management system needed to be able to consider the relationship between their business's offerings and its competitors purely in terms of their relative prices and the features of individual products. Secondly, it needed to be possible to view the relationship between the firm and its distribution channels purely in terms of their appropriateness as channels for the particular product/target customer. Thirdly, the firm's basic relationship with its customers had to be definable solely in terms of brand identity and hence promotion. Given that these simplifying assumptions held, it was in a position to manage the complex relationship between customers, competitors and channels purely in terms of the relatively controllable 4Ps which could be treated as largely independent.

Such a simplification depended however on restricting assumptions about all the inter-relationships which in time have proved to be unsupportable in a number of markets. We have already discussed the extent to which channels must be seen as independent agencies fulfilling an important function of their own, but there are often changes in the dynamics underlying customers and competitors as well. Similarly, if a distinction is made between the characteristics of the product which are more or less independent of the way in which it is used and those properties which are attributed to the product as a result of the particular way in which it is used, then it is possible that product characteristics may give way to attributions as the dominant influence on the nature of the market.

Managing the service mix

Now, it would be totally misleading to suggest that those within a product management system have not been aware of many of these problems. Product attributes and positioning for instance are often critical concerns for product managers. But as King (1983) has pointed out there has tended to be a failure to recognise the need for continual innovation in branded products: 'in the face of huge pressure from retailers, intense competition from other manufacturers and high inflation in raw materials, on the whole manufacturers underestimated the consumer's growing desire for quality and they cut back on everything to do with future progress - research and development, process improvement, product improvement, packaging, advertising and market research'. Further, such concerns are inevitably related to specific products: attributes of our brand of baked beans, flour or computers as compared with other brands. The critical problem arises when such attributes vary considerably for the same brand depending on the context in which the product is served. In such circumstances it becomes misleading to relate attributes solely to the individual product and instead it becomes necessary to add another kind of dimension to the product manager's concerns based on the concept of service mix: the customer's experience of the context in which the product is bought and/or consumed.

The problem then is not so much a lack of awareness of the middle, but rather the fact that those within the product management system need to be able to manage not only the product-market mix, but also the service mix. The service mix however is determined by the way in which the business frames its product-market mix through its definition of product-market boundaries. Such local flexibility in the way in which the business configures its activities cannot be allowed within a macro-organisationally determined product-function matrix. Indeed to manage service mix requires a capability for local redefinition of the axes of the matrix itself: micro-organisational design. In conclusion, therefore, what is happening is that the product manager is facing a local heterogeneity of customer demand from within a static frame. Such heterogeneity of demand cannot be contained within the 4Ps which, because of the nature of the simplifying assumptions underlying them, are limited in their usefulness to those markets in which demand is largely context independent.

IMPLICATIONS FOR MANAGEMENT

The customer then has been changing in response to a wider range of offerings and increased affluence. We have recognised that a substantial proportion of purchases are, at least in some senses, discretionary, and that despite some of the excesses of motivational research, the rationale for individual purchases may imply a wide and complex set of competing offerings. Sometimes this range is fairly obvious (muesli rather than corn flakes for breakfast), sometimes less clear (chocolates rather than flowers as a gift). The consumer's buying behaviour has therefore become more orientated towards a pattern of consumption based on a wide range of substitutes than towards individual products or brands. Indeed, in the consumption process itself, the characteristics of the product (or brand) have become dominated both by the context in which the purchase decision is made, and by the meaning attributed to the consequences of the purchasing act. Hence the introduction of the concept of service mix. An obvious example of this is in services marketing itself where the physical product such as it is is almost always dominated by the context in which the customer interacts with the supplier (Bateson, 1982). Thus while manufacturers have concentrated on competing with individual products or brands, real competition has spanned these restricted product classes according to a context and meaning for any individual purchase which also varies within each class. Hence it is argued, for instance, that the marketability of low-energy consumption and particularly passive solar technology in domestic housing can only be assessed if the market is described in terms of customer-use segments (Boxer and Wensley, 1983), which have been shown to be an effective way of reflecting purchase behaviour in a number of markets (Day *et al*., 1979; Srivastava *et al*., 1984).

The manager-in-the-middle

This context dependency of the customer's need creates a new requirement for the way in which the organisation is able to relate to the customer. The irresistible implication of such a shift is that the solutions will lie in local, micro-organisational approaches rather than in the macro-organisational solutions of the SBU or product management type. Hence the result of seeking to incorporate the management of service mix into the local manager's concerns is that he is forced to engage in micro-organisational design. One suspects that, in practice, such local management responsibilities will have to be vested in individuals who are more senior than traditional product managers but still close enough to the 'local' market. The stresses experienced by such a manager-in-the-middle from the middle-out perspective therefore cluster around three assumptions implicit in the top-down approach to guidance and control which are no longer appropriate to the problems he faces: first, an appropriate distinction in the form of a matrix organisation between product and function cannot be sustained in the face of the market; secondly, it is no longer appropriate anyway to think in terms of products when facing the growing concentration of power of the distribution channels; and thirdly, given increasing substitutability within product classes, it is no longer appropriate to define the customer in terms of products in the first place. As we suggested earlier, such arguments apply with even greater force in those markets where it has never been realistic to ignore the specific nature of individual customers or the ways in which they actually use the products or services on offer, as is the case with most industrial markets.

The manager-in-the-middle must therefore be put in a position and resourced and supported in such a way that he can configure the organisation to operate along those dimensions which create the best return from the resulting relationship with the customer: he must be able to engage in micro-organisational design. Merely attempting to solve the problem within a simplified 'marketing mix' view of the relationship between the business and its customers, along with various macro-organisational solutions such as SBU structures, will not be enough. The current stresses on such business unit managers are a reflection of a need to rethink both the nature of effective marketing in many instances as well as the need to provide such managers with the appropriate wider discretion to tackle issues adequately.

The role of top management

Does passing such power to take strategic initiatives from the top-down to the middle-out however necessarily reduce the residual 'top' to a kind of second-rate capital market? We think not. It requires top management to develop a completely new role for itself based upon the business's need for some federating principle which managers can use as a basis for co-operating and supporting each other within some overall identity

(Wensley, 1984). Interestingly, such a new role casts many apparently ineffective activities in a new light: for example the ‘dress rehearsal’ becomes a medium for developing understanding and commitment in the planning process (Stasch and Lanktree, 1980). The prime concern of top management becomes one of managing the development of viable forms of working knowledge amongst its managers, and the effective deployment of that knowledge through the ways in which managers are enabled to frame the business’s activities.

Fundamentally, like the very problem it is intended to cope with, middle-out development is highly dependent on context. Rather than assuming that strategic wisdom can be located in one place, top management has to expect that it will be dispersed throughout the business (Woodward, 1983). Rather than being the embodiment of wisdom, top management has to manage the development of this dispersed wisdom together with new ways of capitalising on it. Such new ways will often involve changes in the systems of management remuneration, the provision of new forms of informational support to managers, and devising new ways of accounting for performance. Top management needs to recognise that the manager-in-the-middle’s ability to couple the firm’s activities closely to its customers’ needs becomes the key factor in determining long-term commercial success, rather than a superimposed burden on some production process. Indeed it is perhaps symptomatic of the limitations of the previous perspective that much management activity is characterised by the accounting system as ‘overhead’, or perhaps even worse in the US as ‘burden’. The forms of information and control available to the manager-in-the-middle will reflect what are seen as being key factors determining the profitability of their bit of the business. As customers’ needs shift, therefore, so also will the design of the information systems shift. What is the alternative? If businesses fail to recognise the opportunities implicit in the current stresses on managers-in-the-middle, they will continue to find themselves left more and more with ‘commodity’ activities and unable to capitalise on the higher added value operations which inevitably depend on tighter coupling with the customer.

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