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THEORY/CONCEPTUAL

The theoretical foundations of strategic marketing and marketing strategy: foundational premises, R-A theory, three fundamental strategies, and societal welfare

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Abstract The strategic marketing field of study has long suffered from an identity problem: the field has lacked clarity and consensus as to its theoretical foundations, its nature, and its scope. There have been two recent approaches that contribute to resolving the identity problem. First, Varadarajan's (*Journal of the Academy of Marketing Science*, *38*, 119–140, 2010) approach focuses on strategic marketing's (1) domain, (2) definition, (3) fundamental issues, and (4) and foundational premises. Second, resource-advantage (R-A) theory's approach focuses on how R-A theory provides a theoretical grounding for eight forms of business and marketing strategy. This article evaluates how the two approaches relate to each other and shows how R-A theory (1) grounds extant business and marketing theories of strategy, (2) illuminates, informs, extends, and grounds the sixteen foundational premises of the strategic marketing field that Varadarajan (*Journal of the Academy of Marketing Science*, *38*, 119–140, 2010) proposes, (3) implies that there are three fundamental strategies, "superior value", "lower cost", and "synchronal", and (4) shows how the three fundamental strategies promote societal welfare. Therefore, the two approaches, when considered jointly, complement each other and foster the development of the field of strategic marketing and the forms of marketing strategy.

Keywords Strategic marketing · Marketing strategy · Resource-advantage theory · Foundational premises · Fundamental strategies · Societal welfare

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The strategic marketing field of study has long suffered from an identity problem: the field has lacked clarity and consensus as to its theoretical foundations, its nature, and its scope. Varadarajan (2010, p. 120) maintains that the identity problem constitutes an "identity crisis," and he contributes to resolving the identity problem by proposing answers to four questions that are central to developing strategic marketing as a field of study. (1) What is the *domain* of strategic marketing? (2) How should "marketing strategy," the principal focus of strategic marketing, be defined? (3) What issues are fundamental to strategic marketing? And (4), what are marketing strategy's foundational premises, that is, what premises "generalize across products, markets, and time horizons" (Varadarajan 2010, p. 134)? Because Varadarajan's (2010) answers to the four questions are thoughtful, thorough, and well-argued, the article promises to be seminal for the strategic marketing field.

Like Varadarajan's (2010) work, resource-advantage (R-A) theory also contributes to resolving strategic marketing's identity problem (Hunt 2010). Understanding how it contributes requires understanding how R-A theory has recently evolved. At its inception (Hunt and Morgan 1995), R-A theory was positioned as a theory that, compared with neoclassical perfect competition theory, could better explain two questions.[1] First, in terms of wealth creation, innovativeness, and overall quality of goods and services, why are market-based economies far superior to command economies? Second, why do market-based economies have such a diverse assortment of firms? For example, why do firms differ so greatly in size, the number of products produced, and financial performance? The next stage in its evolution was when R-A theory was argued to be a dynamic, *general* theory of competition that incorporates static, perfect competition theory as a special case (Hunt and Morgan 1996, 1997).

[1] See Hunt (2012) for a discussion of themajor events that influenced the evolution of R-A theory.

Later, R-A theory was argued to (1) show why competition in market-based economies is *necessarily* dynamic, (2) incorporate the resource-based and competence-based views of the firm, (3) have the requisites of an evolutionary theory of competition, (4) explicate why competition is a process of knowledge-discovery, (5) contribute to explaining why social relations constitute a resource only contingently, and (6) have the requisites of a moderately socialized theory of competition (Hunt 2000). Also, the theory was argued to (1) show how path-dependence effects can occur, (2) expand the concept of capital, (3) contribute to explaining the growth-pattern of the (former) Soviet Union, (4) provide a theoretical foundation for why institutions promoting property rights, economic freedom, and trust also promote economic growth, and (5) show why the debate over antitrust legislation and implementation has been so misguided (Hunt 2000).

Recently, R-A theory has been argued to be toward a general theory of marketing (Hunt 2010, 2013). The "general theory of marketing" ("GTM") argument has four parts. First, because marketing takes place within the context of competition, a general theory of *marketing* should be consistent with the most general theory of *competition*. Accordingly, because R-A theory is the most general theory of competition (Hunt 2000), it is an appropriate foundation for working toward a GTM. Second, the closest thing to a GTM today is Alderson's (1957, 1965) functionalist theory of market behavior. Therefore, R-A theory is toward a GTM because it accommodates and extends key concepts and generalizations from Alderson's theory and integrates them into a broader theoretical framework (Hunt and Arnett 2006). Third, R-A theory is toward a GTM because it provides a theoretical foundation for the major approaches to B2B marketing (Hunt 2013).

The fourth part of the GTM argument—and the part to be explored in this article—is that R-A theory grounds eight forms of business and marketing strategy: industry-based strategy, resource-based strategy, competence-based strategy, knowledge-based strategy, market orientation strategy, relationship marketing strategy, market segmentation strategy, and brand equity strategy. Consequently, R-A theory's structure and nine foundational premises "provide a foundation for–both research in and the teaching of–the normative area of marketing strategy" (Hunt 2010, p. 405). By providing a theoretical foundation for (at least) eight major forms of business and marketing strategy, R-A theory may be argued to contribute to resolving strategic marketing's identity problem.

However, because both Varadarajan's (2010) work and the recent works on R-A theory can be claimed to contribute to resolving strategic marketing's identity problem, the following question arises: how does R-A theory and its nine foundational premises relate to Varadarajan's (2010) 16 premises that he proposes are foundational to marketing strategy? This article argues that R-A theory's structure and nine foundational premises illuminate, inform, extend, and ground his 16 foundational premises, which implies that R-A theory undergirds and complements Varadarajan's (2010) work. Furthermore, this article shows how R-A theory identifies three strategies that are fundamental to strategic marketing, labeled "superior value," "lower cost," and "synchronal". Moreover, this article shows why R-A theory's three fundamental strategies, when adopted by firms, have consequences that are highly beneficial for society.

Structurally, this article begins by reviewing Varadarajan's (2010) answers to the four central questions and the key elements of R-A theory. Then, it (1) discusses the essence of the "R-A theory grounds strategy" argument, (2) shows how R-A theory undergirds each of Varadarajan's (2010) "purposes" premises, (3) explicates R-A theory's "superior value," "lower cost," and "synchronal" strategies, (4) shows how R-A theory undergirds each of Varadarajan's (2010) "differentiation/cost," "cost-based," and "strategy diversity" premises, and (5) points out the societal value of marketing strategies that promote efficiency and effectiveness. Overall, this article shows how R-A theory, its three foundational strategies, and Varadarajan's (2010) 16 premises complement each other in securing the theoretical foundations of the strategic marketing field and resolving its identity problem.

The four questions central to strategic marketing

For question one, Varadarajan (2010, p. 119) proposes that the domain of strategic marketing is:

> the study of organizational, inter-organizational, and environmental phenomena concerned with (1) the behavior of organizations in the marketplace in their interactions with consumers, customers, competitors and other external constituencies, in the context of creation, communication and delivery of products that offer value to customers in exchanges with organizations, and (2) the general management responsibilities associated with the boundary spanning role of the marketing function in organizations.

Good domain proposals should be broad enough to foster a wide range of research, but not so broad that they tend to sweep in everything. Although his proposed domain is broad, it constrains the field to the study of those behaviors and responsibilities associated with the *context* of the "creation, communication and delivery of products that offer value to customers in exchanges with organizations," which makes it not *excessively* broad. Indeed, its boundaries are well within the confines of the American Marketing Association's (AMA's) definition of marketing: "the activity, set of institutions, and processes for creating, communicating, delivering, and exchanging offerings that have value for customers, clients, partners, and society at large" (Marketing News 2008, p.28).

For question two, Varadarajan (2010, p. 128) draws on the AMA's "official" definition of marketing to define *marketing strategy* as an:

> organization's integrated pattern of decisions that specify its crucial choices concerning products, markets, marketing activities and marketing resources in the creation, communication and/or delivery of products that offer value to customers in exchanges with the organization and thereby enables the organization to achieve specific objectives.

By delimiting strategy to "crucial" decisions, his definition is salutary because it clarifies some of literature's confusion over the difference between *strategy* and *tactics*. Furthermore, the "integrated pattern" requirement rightfully proposes that strategy is more than a simple, isolated decision. Typically, it involves a *complex* of decisions.

For question three, Varadarajan (2010, p. 133) proposes two issues as fundamental to strategic marketing: (1) "What explains differences in the marketing behavior of competing businesses in the marketplace?" and (2) "What explains differences in the marketplace and financial performance of competing brands/product lines/businesses?" By focusing on explaining phenomena, Varadarajan (2010) locates the strategic marketing field squarely within the domain of science. Indeed, because "the distinctive aim of the scientific enterprise is to provide systematic and responsibly supported explanations" (Nagel 1961, p. 15), the "explanation of phenomena remains the *sine qua non* of science; without explanation, there is no science" (Hunt 2010, p. 77).

For question four, Varadarajan (2010, p. 134) develops 16 "simple, straightforward, and obvious" premises that are posited to be foundational to marketing strategy because they tend to "generalize across products, markets, and time horizons". The 16 fall into four distinct groups. Premises 1–6 focus on the *purposes* of marketing strategy; 7–12 deal with aspects of *differentiation* as a strategy; 13 and 14 address *cost-based* strategies; and 15 and 16 relate to within-industry, strategy *diversity*. Before analyzing how R-A theory relates to each of his the 16 premises, a brief review of key elements of R-A theory is needed.

The key elements of R-A theory

Resource-advantage (R-A) theory, is an evolutionary, process theory of competition. Understanding it requires understanding its structure and foundations. As explicated in Hunt (2000), the foundational premises of R-A theory are:

P1: Demand is heterogeneous across industries, heterogeneous within industries, and dynamic.
P2: Consumer information is imperfect and costly. (Here, R-A theory uses "consumers" in its broadest sense, which includes business and other buyers.)
P3: Human motivation is constrained self-interest seeking.
P4: The firm's objective is superior financial performance.
P5: The firm's information is imperfect and costly.
P6: The firm's resources are financial, physical, legal, human, organizational, informational, and relational.
P7: Resource characteristics are heterogeneous and imperfectly mobile.
P8: The role of management is to recognize, understand, create, select, implement, and modify strategies.
P9: Competitive dynamics are disequilibrium-provoking, with innovation endogenous.

R-A theory is a general theory of competition that describes the process of competition, as depicted in Figs. 1 and 2. Using Hodgson's (1993) taxonomy, R-A theory is an evolutionary, disequilibrium-provoking, process theory of competition, in which innovation and organizational learning are endogenous, firms and consumers have imperfect information, and in which entrepreneurship, institutions, and public policy affect economic performance. Evolutionary theories of competition require relatively durable and heritable entities that can serve as the units of selection in an evolutionary process. For R-A theory, both firms and resources are proposed as the heritable, durable entities of selection, and competition for comparative advantages in resources constitutes the evolutionary selection process.

At its core, R-A theory combines heterogeneous demand theory with a resource-based view of the firm (see premises P1, P6, and P7). Heterogeneous demand theory views intra-industry demand as significantly heterogeneous with respect to consumers' tastes, preferences, and use requirements. Because of heterogeneous intra-industry demand, industries are best viewed as collections of market segments, which implies that it is inappropriate to draw demand curves for most industries. Therefore, viewing products as bundles of attributes, different market offerings (or "bundles" of attributes) are required for different market segments within the same industry. R-A theory, consistent with the resource-based theory of the firm, holds that the firm is a combiner of heterogeneous, imperfectly mobile entities that are labeled "resources". These heterogeneous, imperfectly mobile resources, when combined with heterogeneous demand, imply significant diversity as to the sizes, scopes, and levels of profitability of firms within the same industry.

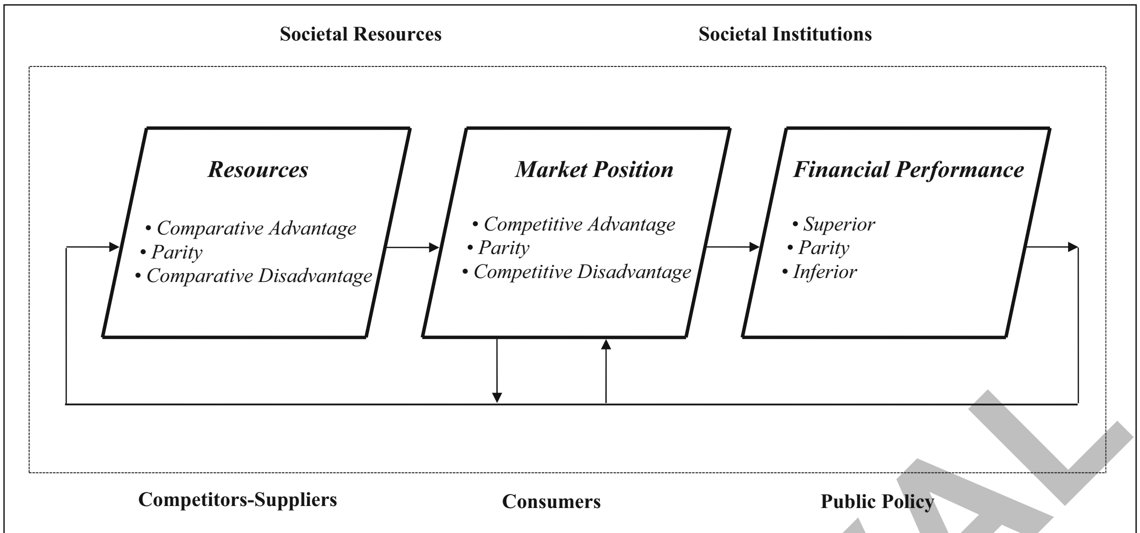
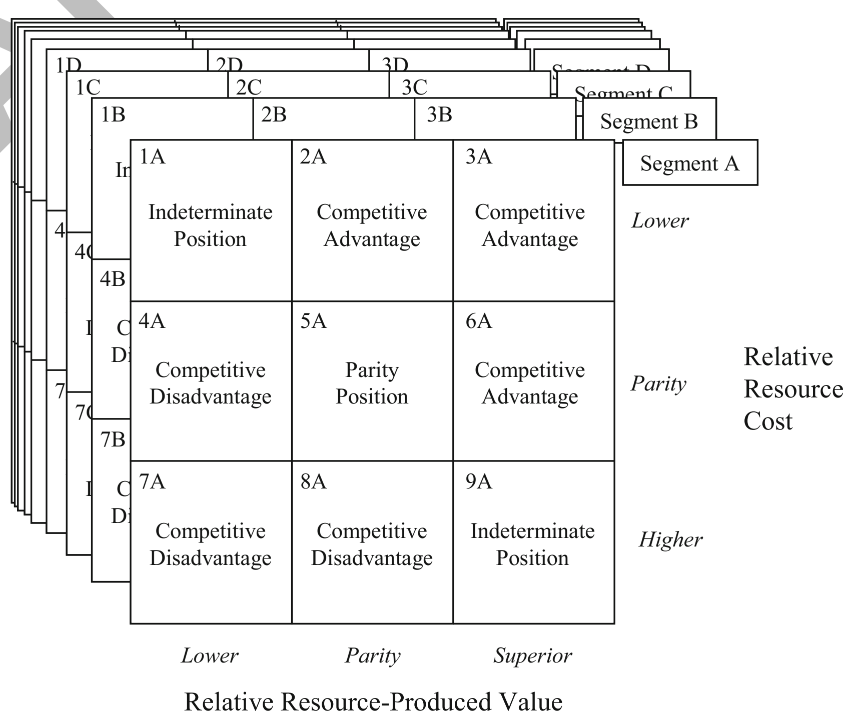


Fig. 1 A Schematic of the Resource-Advantage Theory of Competition. Read: Competition is the disequilibrating, ongoing process that consists of the constant struggle among firms for a comparative advantage in resources that will yield a marketplace position of competitive advantage and, thereby, superior financial performance. Firms learn through competition as a result of feedback from relative financial performance "signaling" relative market position, which, in turn signals relative resources. Source: Adapted from Hunt and Morgan (1997)

As Figs. 1 and 2 show, R-A theory stresses the importance of (1) market segments, (2) heterogeneous firm resources, (3) comparative advantages/disadvantages in resources, and (4) marketplace positions of competitive advantage/disadvantage. In brief, market segments are defined as intra-industry groups of consumers whose needs, wants, requirements, tastes, and preferences with regard to an industry's output are *relatively* homogeneous. Resources are defined as the tangible and intangible entities available to the firm that enable it to produce efficiently and/or effectively a market offering that has value for some market segment(s). Resources can be categorized as:

- Financial (e.g., cash resources, access to financial markets),
- Physical (e.g., plant, equipment),

Fig. 2 Competitive Position Matrix. Read: The marketplace position of competitive advantage identified as Cell 3A, for example, in segment A results from the firm, relative to its competitors, having a resource assortment that enables it to produce an offering that **a** is perceived to be of superior value by consumers in that segment and **b** is produced at lower costs than rivals. Note: Each competitive position matrix constitutes a different market segment (denoted as segment A, segment B,…). Source: Adapted from Hunt and Morgan (1997)



- Legal (e.g., trademarks, licenses),
- Human (e.g., the skills and knowledge of individual employees),
- Organizational (e.g., competences, controls, policies, culture),
- Informational (e.g., knowledge from consumer and competitive intelligence), and
- Relational (e.g., relationships with suppliers and customers).

Each firm in the marketplace will have at least some resources that are unique to it (e.g., very knowledgeable employees, efficient production processes, etc.) that could constitute a comparative advantage in resources that could lead to marketplace positions of competitive advantage (i.e., cells 2, 3, and 6 in Fig. 2). Some of these resources are not easily copied or acquired (i.e., they are relatively immobile). Therefore, such resources (e.g., culture, competences, and processes) may be a source of long-term competitive advantage.

Just as international trade theory recognizes that nations have heterogeneous, immobile resources, and it focuses on the importance of comparative advantages in resources to explain the benefits of trade, R-A theory recognizes that many of the resources of firms within the same industry are significantly heterogeneous and relatively immobile. Therefore, analogous to nations, some firms will have a comparative advantage and others a comparative disadvantage in efficiently and/or effectively producing particular market offerings that have value for particular market segments.

Specifically, when firms have a comparative advantage in resources, they will occupy marketplace positions of competitive advantage for some market segment(s), which results in *superior* financial performance. Similarly, when firms have a comparative disadvantage in resources, they will occupy positions of competitive disadvantage, which will then produce *inferior* financial performance. Therefore, firms compete for comparative advantages in resources that will yield marketplace positions of competitive advantage for some market segment(s) and, thereby, superior financial performance. As Fig. 1 shows, how well competitive processes work (to, for example, foster productivity and economic growth) is significantly influenced by five environmental factors: the societal resources on which firms draw, the societal institutions that form the "rules of the game" (North 1990), the actions of competitors and suppliers, the behaviors of consumers, and public policy decisions.

R-A theory emphasizes innovation, both proactive and reactive. The former is innovation by firms that, though motivated by the expectation of superior financial performance, is not prompted by specific competitive pressures—it is genuinely entrepreneurial in the classic sense of *entrepreneur*. In contrast, the latter is innovation that is directly prompted by the learning process of firms' competing for the patronage of market segments. Both proactive and reactive innovation can be "radical" or "incremental," and both contribute to the dynamism of R-A competition.

Firms (attempt to) learn in many ways—by formal market research, seeking out competitive intelligence, dissecting competitor's products, benchmarking, and test marketing. R-A theory adds to extant work by showing how the process of competition itself contributes to organizational learning. As the feedback loops in Fig. 1 show, firms learn through competition as a result of the feedback from relative financial performance signaling relative marketplace position, which in turn signals relative resources. When firms competing for a market segment learn from their inferior financial performance that they occupy positions of competitive disadvantage (Fig. 2), they attempt to neutralize and/or leapfrog the advantaged firm(s) by acquisition and/or innovation. That is, they attempt to acquire the same resource as the advantaged firm(s) and/or they attempt to innovate by imitating the resource, finding an equivalent resource, or finding (creating) a superior resource. Here, "superior" implies that the innovating firm's new resource enables it to surpass the previously advantaged competitor in terms of either relative costs (i.e., an *efficiency* advantage), or relative value (i.e., an *effectiveness* advantage), or both.

Firms occupying positions of competitive advantage can continue to do so if (1) they proactively innovate and reinvest in the resources that produced the competitive advantage, and (2) rivals' acquisition and innovation efforts fail. Rivals will fail (or take a long time to succeed) when an advantaged firm's resources are either protected by such societal institutions as patents, or the advantage-producing resources are causally ambiguous, socially or technologically complex, tacit, or have time compression diseconomies.

Competition, then, is viewed as an evolutionary, disequilibrium-provoking process. It consists of the constant struggle among firms for comparative advantages in resources that will yield marketplace positions of competitive advantage and, thereby, superior financial performance. Once a firm's comparative advantage in resources enables it to achieve superior performance through a position of competitive advantage in some market segment(s), competitors attempt to neutralize and/or leapfrog the advantaged firm through acquisition, imitation, substitution, or major innovation. R-A theory is, therefore, inherently dynamic. Disequilibrium, not equilibrium, is the norm. In the terminology of Hodgson's (1993) taxonomy of evolutionary economic theories, R-A theory is non-consummatory: it has no end-stage, only a never-ending process of change. The implication is that, though market-based economies are *moving*, they are not moving toward some final state, such as a Pareto-optimal, general equilibrium.

The essence of the "R-A theory grounds strategy" argument

As depicted in Fig. 3 and detailed in previous works (Hunt 2002, 2006, 2010; Hunt and Arnett 2004; Hunt and Derozier 2004; Hunt and Madhavaram 2006; Hunt and Morgan 2005; Madhavaram and Hunt 2008), R-A theory has been shown to provide a theoretical foundation for four major kinds of business strategy (industry-based strategy, resource-based strategy, competence-based strategy, and knowledge-based strategy) and four types of marketing strategy (market orientation strategy, relationship marketing strategy, market segmentation strategy, and brand equity strategy). Although space limitations prevent reviewing the details of the numerous arguments that show how R-A theory grounds eight major forms of strategy, the basic form of the overall argument can be presented.

The essence of the "R-A theory grounds strategy" argument starts with the observation that all theories of business and marketing strategy are normative imperatives of the following form: "In order for a firm to achieve its goals, it *should* …" (Hunt 2010, p. 405). What follows the "should" differs according to the particular theorist's school of thought. R-A theory provides a positive theoretical foundation for an *integrative* understanding of eight, major, normative theories of strategy shown in Fig. 3. That is, (1) because the implementation of the normative strategies occurs in the context of competition and (2) because R-A theory best describes the nature of competition in market-based economies, then (3) R-A theory can *ground* business and marketing strategy. For example, choosing strategies wisely requires that managers understand *both* the alternative theories of strategy in the literature and the competitive contexts in which each theory's normative imperative would likely work well. A strategy that would be highly successful in one competitive context, might fail dismally in another.

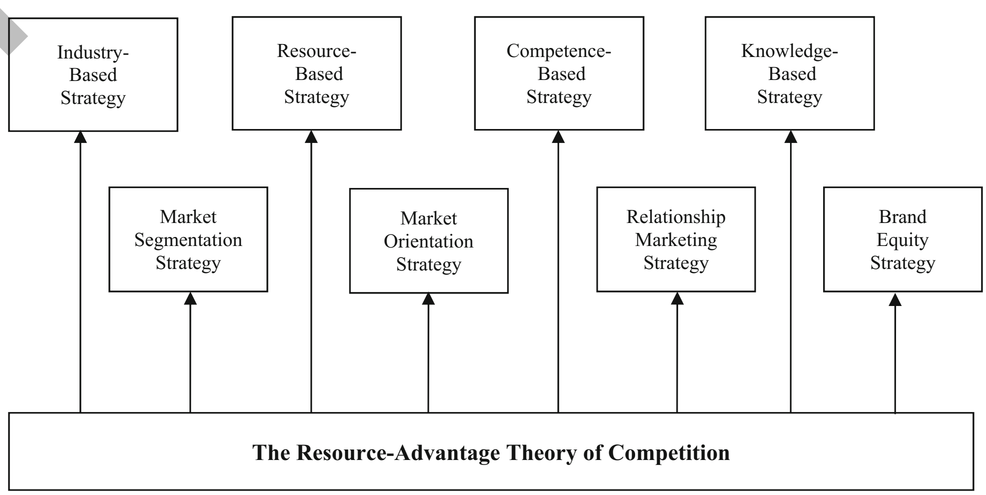
Indeed, normative theories of strategy are so intertwined with positive theories of competition that when managers adopt a specific form of strategy, they are, explicitly or implicitly, *assuming* that competition has certain characteristics. Therefore, managers' effective use of business and marketing strategy requires that they understand the nature of competition. Alternatively stated, theories of business and marketing strategy must be *grounded* in a theory of competition.

The foundational premises of marketing strategy and R-A theory

This section begins our examination of how R-A theory relates to the 16 premises that Varadarajan's (2010) proposes as foundational to marketing strategy. (For readers' convenience, the premises are reproduced in their entirety in the Appendix). Before focusing on each premise, two preliminary issues should be addressed. First, does Varadarajan (2010) *implicitly* ground his approach to marketing strategy in R-A theory? Readers should recall that his approach argues that two issues are fundamental to strategic marketing. Note that his first issue does not focus on explaining the behaviors of *all* businesses in the marketplace, but on explaining the behaviors of those firms that are "*competing* businesses in the marketplace" (Varadarajan 2010, p. 133; italics added). Also, his second issue does not focus on explaining the performance differences of *all* firms, but on explaining differences in "*competing* brands/product lines/businesses" (Varadarajan 2010, p. 133; italics added). Therefore, because his two fundamental issues incorporate *competition* as the appropriate context for strategic marketing, his approach implies that it is grounded in a theory of competition. The only question is: Which one?

In answering the "which one" question, readers should consider the following. Because of (1) its view of what

Fig. 3 Integrating Business and Marketing Strategy. *Source*: Hunt (2003). Reprinted by the permission of the author



constitutes the key elements of the process of competition, (2) its analysis and depiction of what constitutes marketplace positions of competitive advantage/disadvantage, and (3) its proposed view of competition as the constant struggle for comparative advantages in resources that will yield marketplace positions of competitive advantage and, thereby, superior financial performance, then (4) R-A theory can provide a theoretical grounding for Varadarajan' s (2010) two fundamental issues. Therefore, it can be argued that Varadarajan (2010) implicitly grounds marketing strategy in R-A theory.

The second preliminary issue is: What does Varadarajan (2010) mean when he describes the 16 premises as "foundational"? He surely does not mean that they comprise a complete set of axioms from which a particular theory of strategy can be derived by formal logic because he derives no such theory, and he states that the 16 are not posited as complete, but "intended to be representative" (Varadarajan 2010, p. 138). Equally surely, he does not mean that the premises are "assumptions" in the sense of Friedman (1953) and the received view of neoclassical economics. That is, he does not propose that the premises "abstract the common and crucial elements from the mass of complex and detailed circumstances surrounding the phenomena to be explained and permits valid *predictions* on the basis of them alone" (Friedman 1953, p. 14; italics added). In fact, nowhere does Varadarajan (2010) argue that the sole criterion by which his premises may be judged is predictive accuracy.

How, then, does Varadarajan (2010) use the term "foundational premises"? His use appears to parallel that of R-A theory, whose premises are foundational in the sense that they are (1) important for understanding R-A theory and (2) purported to be succinct, descriptively realistic descriptions of the actual process of competition in market-based economies. Furthermore, consistent with the epistemology of scientific realism, each premise in R-A theory is considered a candidate for empirical testing. "Those found false should be replaced with ones more descriptively accurate" (Hunt 2000, p.105). Therefore, Varadarajan's (2010) use of the term "foundational premises, " rather than being formal axioms or Friedman-like "assumptions," can be meaningfully interpreted in the realist manner of the premises of R-A theory. That is, his proposed premises are meant to be viewed as (1) *important for understanding the field of strategic marketing and* (2) *descriptively realistic representations of the current status of basic knowledge in the field*. If they were not important, he would not call them "major" premises and describe them as "universals" (Varadarajan 2010, p. 114). If they were not purported to be descriptively realistic, he would not claim: "For the most part… [they] are straightforward and obvious" (Varadarajan 2010, p. 114). (Descriptively *unrealistic* premises may be many things, but they are not "obvious"). With the preceding in mind, we turn to examining premises 1-6, his "purposes" premises.

The "purposes" premises and R-A theory

Each of Varadarajan's (2010) first six premises proposes a purpose of marketing strategy. Specifically, the major purposes—as detailed in the appendix—are to:

(1) "facilitate an organization to achieve and sustain a competitive advantage in the marketplace,"
(2) "create market-based relational assets and market-based intellectual assets for the organization,"
(3) "enable an organization to establish and nurture mutually beneficial exchange relationships with customers,"
(4) "modify influence/shape the affect, cognition and behaviors of customers and consumers in ways that are conducive to their acquisition, possession and consumption of specific product offerings of an organization,"
(5) "identify and leverage new points of differentiation,"
(6) "enhance the salience of non-price criteria vis-à-vis price or vice-versa in buyers' choice decisions"

Our analysis begins by addressing three issues. (1) Are the premises positive or normative? (2) Why is there no mention of financial performance as a purpose of marketing strategy? (3) Why is there no mention of a proposed superordinate or primary purpose of marketing strategy? As to the first question, do Varadarajan's (2010) "purposes" premises claim to represent what *is* the current state of knowledge in strategic marketing as to the purposes marketing managers actually, typically, or most frequently pursue (i.e., positive), or do they represent what theorists in the field of strategic marketing recommend that marketing managers *should* do when they attempt to develop marketing strategy (i.e., normative)?

The first six premises, though stated in strictly positive terms, appear to be best viewed as *positive* reports of the *normative* recommendations of those in the strategic marketing field. For example, the first premise may be restated, with no apparent loss of content, as "the field of strategic marketing (typically or most frequently) recommends that managers in organizations should pursue marketing strategies that will facilitate an organization to achieve and sustain a competitive advantage in the marketplace". The other five premises may be similarly restated with no apparent loss of content.

For the second issue, readers may be surprised that the six premises make no mention of profits or other indicators of financial performance. This absence may be explained by two factors. First, though most of his article seems directed at for-profit firms, Varadarajan (2010, p. 130) states that his use of "organizations" includes both for-profit and not-for-profit firms. Therefore, a reason that profits are not mentioned is that not-for-profit firms are, by definition, not *for* profit. Second, note that prior to his discussion of the "purposes" premises he specifically defines "marketing strategy" as fostering an organization's exchanges with its customers, which "thereby enables the organization to achieve [the] specific objectives" of: (1) competitive positional advantages, (2) specific market responses from customers, (3) marketplace performance objectives, and (4) financial performance objectives (Varadarajan 2010, p. 132). Therefore, financial performance as an objective is not mentioned in his "purposes" premises because the six *marketing* purposes, taken collectively, are intended to promote the *firm's* financial performance objectives (as well as to promote competitive positional advantages, specific customer responses, and marketplace performance objectives).

For the third issue, Varadarajan (2010) neither maintains that all four organizational objectives are equally important, nor that any objective is primary or superordinate. As to this relative-importance-of-objectives issue, R-A theory can illuminate, inform, extend, and ground his "purposes" premises. R-A theory, with its focus on for-profit firms, relates to the proposed six purposes of strategic marketing and four purposes of organizations by positing that for-profit firms have a primary, superordinate purpose.[2] For-profit firms—by definition—are primarily *for* some profit-related purpose. Indeed, the interesting question is not whether for-profit firms have a primary purpose that is profit-related, but what is the most succinct, descriptively realistic way to describe the profit-related purpose of for-profit firms?

The received view of neoclassical economics (which, despite its unpopularity in many quarters, continues to strongly influence marketing and business strategy and to dominate economic thought and public policy) has maintained that the profit-related purpose of the firm is best described as the *maximization* of profits. R-A theory, for four reasons, rejects the view that profit maximization is the best way to describe the profit-related purpose of firms. First, imperfect information makes *maximization* impossible. Second, the personal moral code of ethical egoism ("utility maximization") that guides some managers will result in agency problems that will thwart attempts to maximize profits. Third, firms guided by deontological ethics may, at times, choose not to maximize profits on ethical grounds. Fourth, ethical code mismatches between (and among) owners, managers, and subordinate employees may result in non-maximizing behaviors (see Hunt 2000, pp. 118–27).

For R-A theory, "superior financial performance" (see P_4 in R-A theory's premises) is argued to be the succinct, *best* descriptor of the firm's primary, superordinate objective for three reasons. First, "superior financial performance" is a measurable, knowable, achievable objective. Second, because of the way market-based economies actually work, superior rewards will flow to owners, managers, and employees of firms that produce superior financial performance, which will motivate them to strive for this objective. Third, because all competitors cannot be superior at the same time, the pursuit of *superior* financial performance results in competition in R-A theory being necessarily dynamic, which makes R-A theory empirically consistent with the observed dynamism of market-based economies.

The "superior" in superior financial performance equates with both *more than* and *better than*. It implies that firms seek levels of financial performance that exceed those of some financial referents. For example, the indicators of financial performance can be such measures as accounting profits, earnings per share, return on assets, and return on equity. The referents against which the firm's performance is compared can be the firm's own performance in a previous time-period, the performance of rival firms, an industry average, or a stock-market average, among others. Both the specific measures of financial performance and the specific referents used for comparison purposes will vary somewhat from time to time, firm to firm, industry to industry, evaluator to evaluator, and culture to culture.

Therefore, returning to Varadarajan's (2010) "purposes" premises, because R-A theory best describes the process of competition in market-based economies, and it identifies the primary objective of for-profit firms as the pursuit of superior financial performance, the *primary* objective of the actions proposed in his six "purposes" premises is to contribute to enabling the firm to achieve the firm's superordinate objective. By explicating the logic underlying the firm's primary objective and, thereby, showing the overriding purpose of his six "purposes" premises, R-A theory illuminates, informs, extends, and grounds his approach to marketing strategy.

Premise 1 and R-A theory

Premise 1 proposes that facilitating a firm's achievement of a competitive advantage is "*a* purpose of marketing strategy, rather than *the* purpose of marketing strategy," which he indicates is "espoused in certain sources" of the strategic marketing literature. Note, however, that earlier in the article, Varadarajan (2010, p. 132) had claimed that one of the four *organizational* objectives was to attain "competitive positional advantages." Here, Varadarajan's (2010) article enters a very confused area of the business and marketing strategy literatures. Unfortunately, the strategy literature often uses "competitive advantage" in a generic manner to signify (1) any advantage a firm has, (2) a competitive positional advantage (in which the concept of "position" is often ill-described), (3) an advantage in resources that leads to desirable outcomes of some kind, and (4) any advantage that can be sustained through time. R-A theory provides a way out of the "competitive advantage" maze.

For R-A theory, the term "competitive advantage" is always used in the context of Fig. 2. Firms have a *competitive*

[2] See Topaloglu et al. (2015) for an extension of R-A theory to competition in the context of nonprofit organizations.

advantage only when they occupy cells 2, 3, or 6 in Fig. 2. That is, firms only have a competitive advantage when:

(1) their market offerings are produced at costs that are lower than their competitors, and the value of their market offerings is perceived by targeted consumers as being at parity with other offerings in the marketplace (cell 2), or
(2) their market offerings are produced at costs that are at parity with their competitors, and the value of their market offerings is perceived by targeted consumers as superior to other offerings in the marketplace (cell 6), or
(3) their market offerings are produced at costs that are lower than their competitors, and the value of their market offerings is perceived by targeted consumers as higher than other offerings in the marketplace (cell 3).

Contrasted with much of the strategy literature, R-A theory never refers to the advantage that a firm has in the resources that *lead* to a marketplace position of competitive advantage as a competitive advantage. Rather, it always refers to such an advantage as a *comparative advantage* in resources that results in a position of *competitive advantage*.

Also in contrast, for R-A theory, the issue of whether a firm's position of competitive advantage is "sustainable" always refers to how long it takes for competitors to neutralize and/or leapfrog the advantaged firm(s) by acquisition and/or innovation. That is, because all competitors seek superior financial performance, they always attempt to (1) acquire the same resource as the advantaged firm(s) and/or (2) innovate by imitating the resource, and /or (3) finding an equivalent, substitute resource, and/or (4) engaging in major innovation that will result in finding (creating, developing) a superior resource. Here, "superior" implies that the innovating firm's new resource enables it to surpass the previously advantaged competitor in terms of either relative costs (i.e., an *efficiency* advantage), or relative value (i.e., an *effectiveness* advantage), or both. (Although actions 1–3 are often discussed in the resource-based strategy literature, the major innovation pointed out in action 4 appears unique to R-A theory).

Premise 2 and R-A theory

Premise two is to "create market-based relational assets and market-based intellectual assets for the organization," which is certainly consistent with the strategic marketing literature. Specifically, creating market-based, relational assets is squarely within relationship marketing strategy (Fig. 3), which has the following strategic imperative: "to achieve competitive advantage and, thereby, superior financial performance, firms should identify, develop, and nurture an efficiency-enhancing, effectiveness-enhancing portfolio of relationships" (Hunt 2010, p. 414). Also, creating market-based intellectual assets is a key part of market orientation strategy (Fig. 3) and its strategic imperative: "to achieve competitive advantage and, thereby, superior financial performance, firms should systematically (1) gather information on present and potential customers and competitors and (2) use such information in a coordinated way across departments to guide strategy recognition, understanding, creation, selection, implementation, and modification" (Hunt 2010, p. 413).

However, relationship marketing strategy does not recommend that firms partner with, form close relationships with, all possible consumers, suppliers, competitors, retailers, and others. Call this the "which partners?" issue. Also, market orientation strategy does maintain that all forms of market knowledge are to be sought. Call this the "what types of knowledge?" issue. Furthermore, neither relationship marketing nor market orientation strategies are likely to be successful in all competitive contexts. Call this the "which contexts?" issue. R-A theory illuminates, informs, extends, and grounds Varadarajan's (2010) second premise by providing answers to the "which partners," "what types of knowledge," and "which contexts" issues.

As to the "which partners" issue, firms should seek partners with whom to develop relationships that result in the relationships being *relational resources*. Because a "resource" is any tangible or intangible entity available to the firm that enables it to produce efficiently and/or effectively a market offering that has value for some market segment(s), some relationships are resources and others are not. For R-A theory, the types of relationships that should be sought are those that potentially could be relational resources. Similarly, as to the "what types of knowledge" issue, the types of market intelligence that should be sought are those that could potentially constitute *informational resources*. Both relational and informational resources were considered so important that they were specifically listed in the original list of major firm resources (Hunt and Morgan 1995).

For the "which contexts" issue, Fig. 2 provides an answer. Relationship marketing and market orientation strategies will succeed when they result in the firm's market offerings, relative to competitors, moving upward (becoming more efficient) and/or to the right (becoming more effective). That is, successful strategies result in firms occupying cells 2, 3, or 6 in the competitive position matrix. Note that if the *costs* of implementing either type of strategy are excessive, then the firm becomes less efficient and tends to drift downward in the matrix toward positions of competitive disadvantage (cells 4, 7, and 8). Likewise, if the strategies produce market offerings that are perceived by targeted consumers as having lower value than competitors' offerings, the firm drifts to the left, toward positions of competitive disadvantage.

Premises 3, 4, and 6, and R-A theory

Our attention turns to premises 3, 4, and 6 (purpose 5, which focuses on "differentiation," is deferred to the next section).

Premise 3 highlights the importance of firms ensuring "mutually beneficial" exchange relationships; premise 4 states that firms attempt to modify, influence, or shape consumers' choices toward the firm's market offerings; and premise 6, after dichotomizing consumers' choice criteria into "price" and "nonprice," notes that firms attempt to enhance the importance of one or the other.

As to premise 3 and R-A theory, ever since Alderson (1957, 1965) highlighted the importance of exchange in marketing in the 1950s and posited his "Law of Exchange" in the 1960s, exchange has been stressed in marketing theory. A key point that the Law of Exchange makes is that voluntary exchange is never an exchange of *equivalents*. Rather, in all voluntary exchanges, both parties anticipate that they will benefit because each party's "assortment" after the exchange must, by reason of rationality, be preferred to the assortment prior to the exchange. The fact that voluntary exchange benefits both parties does not mean that a party may not be disappointed after the exchange takes place or that a party would not have preferred different terms of exchange. Rather, it means that *total value* must be anticipated to increase as a result of the process of voluntary exchange (otherwise no exchange would take place).[3] For Alderson (1965), all voluntary exchange must satisfy Varadarajan's (2010) "mutually beneficial" requirement at the time of exchange.

R-A theory's pedigree includes Alderson's theory of market processes (Hunt 2010; Hunt and Arnett 2006). The key implication of the Law of Exchange for R-A theory is how "value" is defined. Note that the competitive position matrix has relative resource costs on the "Y" axis and relative, resource-produced value on the "X" axis. The literature uses the word "value" in many ways. For R-A theory, "*value* refers to the sum total of all benefits that consumers perceive they will receive if they accept a particular firm's market offering" (Hunt 2000, p. 138). Therefore, "superior relative value" in Fig. 2 equates with "perceived to be worth more". For R-A theory, because *perceived* value drives marketplace behavior, if consumers believe one competitor's market offering is worth more, it is, for R-A theory, *worth more*. Thus, R-A theory illuminates, informs, extends, and grounds the "mutually beneficial" premise 3.

Premise 4 is that marketing strategy attempts to "modify/influence/shape the affect, cognition and behaviors or customers and consumers in ways that are conducive to their acquisition, possession and consumption of specific product offerings of an organization," and premise 6 is to "enhance the salience of non-price criteria vis-à-vis price or vice-versa in buyers' choice decisions." Readers should note that both of these types of actions are strongly associated with premise 2 because they both deal with how consumers in their exchanges with firms value the attributes of the firm's market offerings. Also, both premises 4 and 6 are aspects of what marketing strategy theory would usually refer to as the firm's promotion or communications strategy.

Premises 4 and 6 can be illuminated, informed, and extended by R-A theory. First, market offerings (i.e., "products," considered broadly) are viewed by R-A theory as bundles of attributes. Both firms and consumers have a vested interest in (1) which attributes are included in the firm's offering bundle, (2) the relative importance of each attribute in determining the overall value of the offering to consumers, (3) how valuable the bundle of attributes is, and (4) the extent to which each of the attributes in the offering are of high quality, relative to competitors' offerings in the marketplace.

Again, consider Fig. 2. All firms seek positions of competitive advantage (cells 2, 3, and 6). Any firm whose offerings currently occupy positions of competitive disadvantage (cells 4, 7, and 8) will be prompted to adopt strategies that either change consumers' perceptions of the firm's bundle of attributes, as premises 4 and 6 suggest, or they can seek to acquire the kinds of resources that would enable them to produce offerings that result in moving to move upward and to the right, that is, moving toward the positions of their advantaged rivals. Now consider those firms whose offerings currently occupy positions of competitive advantage (cells 2, 3, or 6). If such firms have an accurate understanding of the inherent dynamism of competition, as it is described by R-A theory, they will not stand still. Rather, they will adopt strategies that attempt to reinforce consumers' perceptions of the value of their market offerings, and/or they will seek to acquire, develop, and invest in the kinds of resources that will enable them to produce market offerings that result in them *continuing* to occupy positions of competitive advantage. By doing so, such advantaged firms will continue to achieve superior financial performance—the primary objective of for-profit firms.

What happens to firms that are currently occupying positions of competitive advantage and do not understand the inherent dynamism of R-A competition? They, in time, will move downward and to the left in the competitive position matrix. Ultimately, firms that persistently achieve inferior financial performance face bankruptcy. That is the way competition works in well-functioning, market-based economies. And that is the way it *should* work, for R-A competition, with its emphasis on constantly seeking superior financial performance, results in societal-level increases in productivity, endogenous economic growth, and wealth (see Hunt 2000, pp. 179–257; Hunt and Arnett 2001).

R-A theory and the superior value, lower costs, and synchronal strategies

Premises 5 and 7–12 deal with aspects of differentiation as a strategy, whereas premises 13 and 14 relate to the role of cost advantages in a strategy of low prices. Before addressing these premises, this section details the overall approach of R-A theory to strategy. First, based on Fig. 2, R-A theory identifies three

[3] For an extensive discussion of why consumers enter into relational exchanges with firms, see Hunt et al. (2006).

fundamental strategies, the "superior value," "lower costs," and "synchronal" strategies. These strategies are argued to be fundamental because the success of other, more context specific, strategies (e.g., "push" and "pull" promotion strategies) depends on such strategies being consistent with these three:

- A *superior value* strategy is an effectiveness strategy that is defined as any integrated set of decisions, actions, policies, and procedures that (1) has the goal of identifying, acquiring, developing, and deploying the kinds of resources that (2) will enable the firm to increase the relative value of the its market offerings for targeted consumers, and (3) move the firm's offerings to the *right* in the competitive position matrix.
- A *lower costs* strategy is an efficiency strategy that is defined as any integrated set of decisions, actions, policies, and procedures that has the goal of (1) identifying, acquiring, developing, and deploying the kinds of resources that (2) will enable it to reduce the relative resource costs of its market offerings for targeted consumers, and (3) move the firm's offerings *upward* in the competitive position matrix.
- A *synchronal* strategy is an efficiency/effectiveness strategy that is defined as any integrated set of decisions, actions, policies, and procedures that (1) has the goal of identifying, acquiring, developing, and deploying the kinds of resources that (2) will enable it to *simultaneously* reduce the relative resource costs and increase the relative value of its market offerings for targeted consumers, and (3) move the firm's offerings *upward* and to the *right* in the competitive position matrix.

Note that the superior value strategy enables the firm to achieve its goal of superior financial performance by allowing it to either charge higher prices than its competitors (and, thereby, earn more per unit) or to charge equivalent prices (and, thereby, sell more units). In contrast, the lower costs strategy enables the firm to achieve its goal by allowing it to either charge lower prices than its competitors (and, thereby, sell more units) or to charge equivalent prices (and, thereby, earn more per unit). Furthermore, note that the superior value strategy does not mean just producing high-value products, but producing products whose value is superior to competitors. Similarly, the lower costs strategy does not mean just pursuing low costs, but pursuing costs that are lower than those of rivals. Moreover, note that the synchronal strategy is the kind of strategy that is implied when, for example, a firm claims: "We are always searching for ways to decrease our costs and increase the quality of our products." Empirically, therefore, the synchronal strategy may be the most common strategy of all.

Finally, for reasons that will be apparent subsequently in this article, R-A theory does not use "differentiation strategy" to describe what it means for firms to pursue a superior value strategy. However, many researchers—including, it appears, Varadarajan (2010)—routinely use "differentiation strategy" to mean something similar to what R-A theory identifies as the "superior value" strategy.[4] In such cases, R-A theory can illuminate, inform, extend, and ground the "differentiation strategies" analyses, despite terminological differences. With the preceding discussion of the R-A approach to strategy in mind, we turn to examining the differentiation/cost premises, beginning with premise 8.

Premise 8 and R-A theory

Premise 8 states that, within an industry, "Differentiation implies heterogeneity in supply." To grasp the import of the premise, readers should note that the concept of "differentiation" first rose to prominence in economics with Chamberlin's (1933) theory of monopolistic competition. For Chamberlin and, thereafter, for neoclassical economics, "product differentiation" means the state of affairs in an industry that results from both heterogeneous demand (i.e., differences in buyers' preferences) and heterogeneous supply (i.e., differences in what firms choose to produce or are capable of producing). Indeed,

> a general class of product is differentiated if any significant basis exists for distinguishing the goods (or services) of one seller from those of another [i.e., heterogeneous supply]. Such a difference may be real or fancied, so long as it is of any importance whatever to buyers and leads to a preference for one variety of the product over another" [i.e., heterogeneous demand] (Chamberlin (1933, 1962, p. 56).

Competition in an industry characterized by product differentiation was labeled "monopolistic competition" because, for him, it had elements of "perfect" competition and monopoly.[5]

Chamberlin's analysis of the welfare implications of product differentiation existing in an industry was highly influential in economics. When he compared the state of an industry with product differentiation to that of an industry with homogeneous demand, homogeneous supply, and perfect (or, in his terms, "pure") competition, he found product differentiation's societal consequences to be highly undesirable. In particular, his analysis

[4] Indeed, if researchers do not mean a "superior value" strategy when they recommend a "differentiation" strategy, it is unclear what they do mean. Surely, they do not mean that firms should simply make their products different, as the word "differentiation" might literally imply.

[5] The quoted materials are in both the 1933 and 1962 editions; the page numbers are from the 1962 edition. See Hunt (2000; 2011) for a more detailed analysis of both how Chamberlin's views evolved from the first edition of his book in 1933 to the final edition in 1962 and how his views influenced both economics and marketing.

concluded that product differentiation in an industry resulted in (1) prices being higher, (2) total quantities produced being lower, (3) excess capacity being permanent, (4) products produced being inferior, and (5) labor being exploited (Chamberlin 1933, 1962, pp. 88, 99, 109,183).

In R-A theory's terms, Chamberlin (1933) essentially viewed cell 5 in Fig. 2 to be the natural, normal, equilibrium state of affairs in industries. That is, all firms in an industry have identical costs, have the same resources and capabilities (i.e., same "production function"), and produce one, standard, "undifferentiated" commodity (e.g., "automobile" and "refrigerator"). Furthermore, because all consumers of an industry's product have the same tastes, preferences, and use requirements, all consumers want to purchase the same, standard commodity. Furthermore, all firms in each industry in the economy *should* occupy cell 5 because of the negative welfare implications of "differentiation". Neoclassical economics adopted Chamberlin's dismal view of the consequences of product differentiation and used it inform public policy. That is, perfect competition is *perfect*, and the product differentiation that is associated with Chamberlin's (1933) monopolistic competition is to be regarded as a kind of "imperfect competition" (Robinson 1933) that should be avoided and legislated against.

R-A theory agrees with both Chamberlin (1933, 1962) and premise 8 that "differentiation" is implicative of "heterogeneity in supply". That is, when firms are distributed throughout the nine cells of Fig. 2 for various market segments, the situation reflects what is commonly meant by *both* the terms "product differentiation" and "heterogeneous supply". In contrast, the terms "undifferentiated" or "homogeneous supply" identifies (essentially) the situation that prevails when all producers in an entire industry occupy cell 5.

However, for R-A theory, when all firms occupy cell 5 in an industry, the situation is inherently unstable, descriptively inaccurate, and societally undesirable. It is *unstable* because of the fact that cell 5 implies parity performance, which, when combined with the fact that all firms in an industry seek superior financial performance, implies that the firms will be motivated to innovate to achieve their primary objective of superior financial performance (by moving upward and to the right in Fig. 3). It is *descriptively inaccurate* because the most accurate description of most industry markets is that they are substantially (but not totally or perfectly) heterogeneous in both demand and supply. For example, consumers purchasing automobiles and refrigerators do not want a generic, "undifferentiated" automobile or refrigerator. Rather, because they have significantly different tastes, preferences, and use requirements (heterogeneous demand), they want to purchase an automobile or refrigerator that matches their requirements. Also, because firms producing automobiles and refrigerators have widely different access to different resources and they target different market segments (heterogeneous supply), they will, indeed, produce different automobiles and refrigerators. Therefore, significantly heterogeneous supply is to be expected in most industries.

Finally, R-A theory maintains, it is *societally undesirable* for all firms in an industry to occupy cell 5 because of the highly *unfavorable* welfare implications of homogeneous supply and the highly *favorable* welfare implications of heterogeneous supply. First, homogeneous supply implies that firms are not responding to the significantly heterogeneous demand that exists in most industries, which is a highly unfavorable welfare implication. Second, if competition—R-A competition—exists, it will produce not only the heterogeneous supply that is responsive to heterogeneous demand, but also the innovations that are responsible for increases in productivity, economic growth, and societal wealth (see Hunt 2000).

Therefore, any public policy that successfully mandated that all firms in every industry must occupy cell 5 would have, among other negative welfare implications, the consequence of stifling the kinds of innovations that produce increases in societal wealth, as the experiences of the command economies in the 20th century demonstrated. When all firms in an industry occupy cell 5, the resulting situation is not close to being "perfect." Rather, the stagnation that cell 5 implies is an important indicator that a "market failure" has occurred. For strategic marketing, the preceding implies that the pursuit of the superior value, lower cost, and synchronal strategies has highly positive societal consequences.

Premises 5 and 7, and R-A theory

Premise 5, which claims that "a purpose of marketing strategy is to identify and leverage new points of differentiation," is based on McMillan and McGrath's (1997, p. 133) work, whose central thesis is that the strategy of differentiation should not just focus on "products or services" but on adding value "at every point where it [the firm] comes into contact with its customers." Premise 5 is consistent with R-A theory and its view that, when a firm adopts a superior value strategy, it is the perceived value of the firm's total market offering (not just its narrowly defined products and services) that determines its position in the competitive position matrix. Firms benefit, therefore, when they adopt/develop strategies that result in a "value proposition" (Vargo and Lusch 2004) that adds value to the total benefits consumers perceive in the firms' market offerings.

Premise 7 focuses on "segmenting the market into homogeneous groups," then "developing differentiated product offerings, " and "positioning its offerings relative to competitors." Therefore, premise 7 must be grounded in a theory of competition that recognizes the importance of (1) intra-industry demand being substantially heterogeneous and (2) firms' offerings being valued by consumers relative to those of competitors. R-A theory fits precisely, for readers should note (1) its heterogeneity of demand premise, P_1, (2) the fact that the "X" axis of Fig. 2 is the offering's *relative* resource-produced value, and (3) the fact that competition is viewed as segment-by-segment-by segment (and not industry-wide). Therefore, R-A theory illuminates, informs, extends, and grounds premises 5 and 7.

Premises 9 and 10, and R-A theory

Premise 9 claims that pre-existing heterogeneity of demand is not a "necessary condition in order for a strategy of differentiation to be effective" because such heterogeneity can be a result of the "marketing efforts of competing businesses". Premise 10 extends the argument by pointing out that the "range of options" for a successful differentiation strategy includes "all non-price criteria" buyers use, or could be "influenced" to use, in their decision processes. Both premises are grounded by R-A theory because of the way it highlights the importance of proactive and reactive innovations in R-A competition.

As to premise 9 and R-A theory, firms that occupy cells 4, 7, or 8 will be motivated to (reactively) innovate with respect to their market offerings in order to move to the right in the competitive position matrix and, thereby, secure superior financial performance (Fig. 1). Firms in cells 4, 7, or 8 that do not reactively innovate ultimately fail. Firms that occupy cells 2, 3, or 6, if they understand the dynamics of R-A competition, will be motivated to (proactively) innovate with respect to their market offerings in order to *stay* in their positions of competitive advantage, and thereby, continue to enjoy superior financial performance (Fig. 1). Firms in cells 2, 3, or 6 that do not proactively innovate will ultimately be overtaken by rivals and will, therefore, drift to the left and downward in Fig. 2. (Think Nokia and its once-dominant position in the mobile phone industry.)

As to premise 10 and R-A theory, consumers have imperfect information (see R-A theory's P_2) about the attributes of existing market offerings and the desirable characteristics that a product *should* have. Therefore, communications from firms can influence their choices. At times, consumers know well what attributes they would want in, say, a new product. Often, however, there is no pre-existing clamor among consumers for the specific new attributes of a firm's new market offering. The process of R-A competition implies that the goal of superior financial performance motivates firms to innovate (e.g., develop market offerings with new attributes), after which they offer the resulting new market offerings, the new "value propositions," to consumers, and then consumers respond, either favorably or unfavorably, to the total offerings (think of the introduction of the iPhone in 2007). Also, not only do consumers often learn what attributes are important to them only after a product is offered to them, but they often learn when they receive information (through advertising, personal selling, and other sources) from the producers of offerings about the existence and value of various offerings' specific attributes. This is the way R-A competition works, and for society's benefit, the way it should work. Therefore, in order for premises 9 and 10 to be true, competition must be consistent with the way R-A theory explicates it.

Premises 11 and 12, and R-A theory

Premise 11 claims that "a strategy of differentiation" can be financially successful as long as "the incremental cost per unit…is lower than the price premium that a unit of a differentiated product will command…relative to an undifferentiated unit". And premise 12 claims that "those dimensions of differentiation" that satisfy the requirements of premise 11 "constitute feasible avenues for differentiation".

In R-A theory terms, the "undifferentiated unit" that premises 11 and 12 refer to is a firm whose market offerings result in a marketplace position of cell 5 in Fig. 2. This parity position produces parity returns, which is unacceptable. Therefore, the superior value strategy seeks to move the firm to the right in the matrix, toward cell 6, a position of competitive advantage. However, if the costs of achieving superior value are high, the firm may end up in cell 9, an indeterminate position. In such a position, a firm will be in a position of competitive advantage *only* if the added costs associated with the added value do not exceed the price premium that the added value commands in the marketplace. If targeted consumers do not believe that the added value, relative to the value associated with other firms' market offerings (including those "undifferentiated" offerings of firms in cell 5), is worth the higher price, then the firm fails in its attempt to move from parity financial performance to superior financial performance. Consequently, as premise 12 suggests, the firm will seek other "feasible avenues" for adding value and moving toward the right in Fig. 2. Therefore, R-A theory illuminates, informs, extends, and grounds the dynamics of competition that are implied by premises 11 and 12.

Cost-based strategies and R-A theory

Premise 13 indicates that a "sustainable cost advantage…is a necessary condition" for competing "on the basis of price over the long-run". Also, premise 14 claims that a cost advantage "does not imply being the low priced offering," but rather, having the ability to constrain "competitors from competing on the basis of price".

For R-A theory and premise 13, firms pursue a lower cost strategy when they seek to move upward, toward cells 2 or 3, in Fig. 2. That is, firms seek cost advantages to become more *efficient*. This upward movement can only be accomplished when they identify, acquire, develop, and deploy an assortment of resources that, compared with competitors, enables them to produce valued market offerings with resource costs that are lower. As to when cost (efficiency) advantages are *sustainable*, such advantages are likely to last a long time when competitors find it difficult to neutralize and/or leapfrog the cost-advantaged firms by acquisition and/or innovation. That is, cost (efficiency) advantages are sustainable when competitors have difficulty in acquiring the same resources as the advantaged firm(s), imitating their resources, or finding equivalent resources, or finding (creating) superior resources, or deploying their resources more efficiently/effectively. Here, "superior resources" implies that the innovating firm's new resources enable it to surpass—not just be equal to— the previously advantaged competitor in terms of relative costs. Furthermore, as an extension of premise 13, R-A theory provides a second necessary condition for "competing on price over the long-run." This condition is that lower resource costs associated with the lower prices must, at the minimum, produce a market offering valued as "good enough" for the targeted consumers. (Think of the Yugo automobile, which, despite the fact that the firm was the lowest cost and lowest price producer, failed because the Yugo didn't "go").

Premise 14 is a direct implication of R-A theory's proposed, lower-cost strategy. A firm that occupies cell 2 in Fig. 2 need not lower its price. Instead, it can maintain the same price as its competitors and still have superior financial performance because of its lower costs. Also, when a firm occupies cell 2 and its competitors believe that they cannot acquire a resource assortment that is as efficient as the advantaged competitor, they will be deterred from lowering prices (i.e., high cost firms should never initiate price wars.) Finally, a firm occupying cell 3, the "nirvana" position, because it enjoys superior financial performance from both an efficiency advantage and an effectiveness advantage, has enormous flexibility in its pricing policies. Premises 13 and 14 make significant points about strategic marketing, and both premises are illuminated, informed, extended, and grounded by R-A theory.

The strategy diversity premises and R-A theory

Premises 15 and 16 focus on the existence and implications of strategy diversity in an industry. Thus, for premise 16, the strategies "pursued by no two competitors in an industry are likely to be identical," which implies industry-wide "heterogeneity or diversity in marketing strategy". For premise 15, strategy diversity is to be expected in an industry because "there will be more than one means (i.e., one strategy) to achieving a desired end".

As for strategy diversity, R-A theory explains why diversity of various kinds exists, including strategy diversity. Indeed, recall that a major objective of the original article developing R-A theory was to explain the radical heterogeneity of firms in market-based economies, that is, why is it the case that, "across and within countries, and across and within industries, firms differ radically as to size, scope, methods of operation and financial performance" (Hunt and Morgan 1995, p. 2). In a detailed and extensive discussion, the article provides, explicitly and implicitly, several factors that contribute to explaining strategy diversity. Firms and their strategies differ because:

- intra-industry firm resources are heterogeneous and imperfectly mobile (premise P_7);
- each firm is a unique entity in time and space because of its history;
- firms may target different market segments (and competition is segment-by-segment-by segment);
- firms differ in their competences (or "capabilities"), which are "higher order" resources that are composed of complex, interconnected combinations of basic resources;
- firms' differences in competences may lead them to adopt different strategies as to which components to produce in-house or outsource;
- firms with different resources assortments may be equally efficient or effective in producing the same value for some market segments, which results in firms "looking" different, but producing similar outcomes;
- human motivation is considered to be constrained self-interest seeking (premise P_3), which implies that some managers and their firms may not be opportunists, which further implies that some firms may benefit from the lower costs associated with trust; and
- firms' financial performance, in terms of indicators and referents, will be evaluated differently from time to time, firm to firm, industry to industry, and culture to culture by different evaluators (even though all for-profit firms pursue the primary objective of superior financial performance).

In short, both firm diversity as to (1) differences in strategies (premises 15 and 16) and (2) the sizes, scopes, and levels of financial performance among firms in an industry is the normal, expected, natural outcome of the process of R-A competition. Therefore, R-A theory illuminates, informs, extends, and grounds premises 15 and 16.

Conclusion

Strategic marketing suffers from an identity problem because of its longstanding lack of clarity and consensus as to its theoretical foundations, its nature, and its scope. Varadarajan's (2010) proposals contribute to resolving strategic marketing's identity problem by articulating (1) a suggested domain statement for the field (what is inside and what is outside strategic marketing?), (2) a suggested definition of the field's key construct (what is "marketing strategy"?), (3) a delineation of the fundamental issues of the field (what does strategic marketing theory and research seek to explain?), and (4) a set of 16 foundational premises (what represents the field's basic knowledge?). Because all of his proposals are thoughtful, respectful of the literature, and closely reasoned, they could, and hopefully will, prove seminal for further developing the strategic marketing field.

R-A theory also contributes to resolving the identity problem. It does so by (1) providing the theoretical foundations for eight major forms of business and marketing strategy (2) providing the competitive context that determines the outcomes of marketing strategies and, therefore, can guide strategy development and choice, (3) identifying the three fundamental strategies of "low cost," "superior value," and "synchronal," (4) illuminating, informing, extending, and grounding Varadarajan's approach, and (5) showing how both strategic marketing research and the marketing strategies that firms adopt have implications for societal welfare (e.g., showing how to approach the question of whether it is favorable or inimical to societal welfare when firms adopt brand equity strategies, relationship marketing strategies, market orientation strategies, and/or market segmentation strategies).[6]

Consider Varadarajan's (2010) "purposes" premises. R-A theory illuminates, informs, extends, and grounds premises 1–4 and 6 by (1) clarifying what it means for a premise to be "foundational," (2) showing why "superior financial performance" should be viewed as the superordinate objective of marketing strategy, (3) providing a coherent set of definitions for "competitive advantage," "comparative advantage," and "sustainable competitive advantage," (4) using the R-A concepts of relational resources, informational resources, and the competitive position matrix to address the "which partners," "what types of knowledge," and "which contexts" issues, and (5) conceptualizing *value* in the competitive position matrix in such a way that it addresses his "mutually beneficial," "modify/shape," and "price vs. nonprice" issues.

Next, consider the "differentiation/cost" premises. R-A theory illuminates, informs, extends, and grounds premises 5 and 7–12 by (1) using the competitive position matrix to introduce the "superior value," "lower cost," and "synchronal" strategies as substantive and terminological alternatives to "differentiation" and "cost-based" strategies, (2) providing the historical background of "product differentiation" to show why "differentiation" and "heterogeneous supply" have long been considered implicative in economics, (3) showing why neoclassical economics views differentiation as having negative welfare effects, (4) showing why the adoption of superior value strategies by firms not only results in heterogeneous supply, but also has positive welfare effects for society, (5) showing why the universal adoption by firms of what is often referred to as an "undifferentiated" strategy would be highly detrimental to societal welfare, (6) showing why the recommendation that firms should identify and leverage new points of superior value is a direct implication of R-A theory, (6) showing that a strategy that starts with segmenting the market into homogeneous groups is explicitly implied by R-A theory, (7) showing why R-A theory's premise that consumers have imperfect information and the concepts of proactive and reactive innovation can explain the fact that preexisting heterogeneity of demand is not a necessary condition for a superior value strategy to be effective, and (8) explicating precisely the relationship between (a) the benefits derived from a firm providing a market offering with more value versus (b) the costs of providing such added value.

Furthermore, consider the cost-based premises. R-A theory illuminates, informs, extends, and grounds premises 13 and 14 by (1) explicating the nature of lower-cost strategies, (2) explaining why some cost advantages are sustainable and others are not, (3) adding the "good enough" requirement as a necessary condition for lower-cost strategies to succeed, and (4) showing by means of the competitive position matrix why a successful, lower-cost strategy does not imply being the low priced offering. Finally, consider the strategy diversity premises. R-A theory illuminates, informs, extends, and grounds premises 15 and 16 by (1) showing precisely why strategy diversity is to be expected in an industry and (2) extending the analysis to explain why diversity in the sizes, scopes, and levels of financial performance among firms in an industry is to be expected.

In conclusion, when considered jointly, Varadarajan's (2010) 16 foundational premises and R-A theory combine to foster the development of the field of strategic marketing and the forms of marketing strategy. In addition, they establish the credentials of strategic marketing as a field of study, help managers develop superior strategies, secure for marketing a seat at the corporate strategy table, and demonstrate the societal value of marketing strategies that promote efficiency and effectiveness. In short, the combination contributes to providing a productive path for the continued evolution of strategic marketing theory and research. Furthermore, by proposing that strategic marketing should also focus on the societal impact of the marketing strategies of firms, R-A theory is essentially arguing for an expansion of the domain and fundamental issues of strategic marketing beyond those that are suggested by Varadarajan (2010).

Expanding the domain and fundamental issues of strategic marketing by adding a focus on the societal impact of firms' marketing strategies also contributes to distinguishing strategic marketing from strategic management, an objective that Varadarajan (2010) considers to be important. Readers should note that the marketing discipline's journals include both the *Journal of Public Policy and Marketing* and *The Journal of Macromarketing*. However, there is no comparable *Journal of Public Policy and Management*, nor is there a *Journal of Macromanagement*. This disparity may be explained by understanding the histories of the disciplines of marketing and management. From the very beginnings of the marketing discipline in the early 1900s, marketing has always had a focus on the study of marketing systems, the impact of marketing

[6] See Hunt (2010, pp. 424–430 for an R-A theory evaluation of the impact of adopting brand equity strategies.)

systems on society, and the public policy implications of marketing practices. In terms of the “three dichotomies model” (Hunt 2010), marketing always has had an interest in “macro” issues concerning profit sector and, more recently, nonprofit sector marketing. In contrast, the discipline of management has no comparable history of interest in “macro” issues.

Therefore, because of their different disciplinary histories, one might anticipate that research in strategic marketing would have a more “macro” orientation than research in strategic management. If this is the case, the issue becomes how to achieve this, more macro, orientation. By grounding strategic marketing in R-A theory, researchers avail themselves of the opportunity to not only distinguish strategic marketing from strategic management, but also to meaningfully participate in the ongoing conversation about the positive and negative impacts of organizational practices on society. This ongoing conversation is important; the opportunity to participate is there; and the area of strategic marketing will be enriched by participating–and society will be enriched as well.

Appendix: Varadarajan’s (2010) foundational premises of marketing strategy

1. A purpose of marketing strategy is to facilitate an organization to achieve and sustain a competitive advantage in the marketplace.
2. A purpose of marketing strategy is to create market-based relational assets and market-based intellectual assets for the organization.
3. A purpose of marketing strategy is to enable an organization to establish and nurture mutually beneficial exchange relationships with customers.
4. A purpose of marketing strategy is to modify/influence/shape the affect, cognition and behaviors of customers and consumers in ways that are conducive to their acquisition, possession and consumption of specific product offerings of an organization.
5. A purpose of marketing strategy is to identify and leverage new points of differentiation.
6. A purpose of marketing strategy is to enhance the salience of non-price criteria vis-à-vis or vice-versa in buyers’ choice decisions.
7. A business can enhance the importance of non-price criteria relative to price in the brand choice decision process of buyers by segmenting the market into homogenous subgroups, developing differentiated product offerings responsive to the needs of individual market segments, and distinctively positioning its offerings relative to competitors’ product offerings.
8. Differentiation implies heterogeneity in supply.
9. Heterogeneity in demand is not a necessary condition in order for a strategy of differentiation to be effective in the marketplace. Heterogeneity in demand can either be a pre-existing state of the marketplace, or a consequence of heterogeneity in supply and the marketing efforts of competing businesses designed to stimulate heterogeneity in demand.
10. The range of options available to a business for pursuing a strategy of differentiation encompasses all non-price criteria that buyers either currently factor into the brand choice decision process or can be influenced to factor into the brand choice decision process.
11. All else being equal, a business can enhance its financial performance through pursuit of a strategy of differentiation when the incremental cost of differentiation per unit…is lower than the price premium that a unit of a differentiated product will command in the marketplace relative to an undifferentiated product.
12. Holding all other factors constant, those dimensions of differentiation for which the incremental cost of differentiation is lower than the incremental price premium that such differentiation is likely to command in the market-place constitute feasible avenues for differentiation.
13. A sustainable competitive cost advantage (being the lowest cost producer) is a necessary condition in order for a business to be able to compete on the basis of price over the long-run.
14. Competitive cost advantage does not imply being the lowest priced offering in the marketplace, but possessing the ability to compete on price and constraining the ability of competitors from competing on the basis of price over the long-run.
15. In an industry, there will be more than one means… to achieving a desired end…Thus, different competitors in an industry will be able to achieve and sustain comparable levels of superior performance by pursuing different promotion strategies.
16. There will be differences in the marketing strategies (i.e., heterogeneity or diversity in marketing strategy) pursued by competitors in an industry. The marketing strategies pursued by no two competitors in an industry are likely to be identical. At the margin, there will be differences in the strategies pursued.

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