Marketing strategy selection, marketing metrics, and firm performance

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Abstract

Purpose – This research aims to investigate the relationship between customer-based performance measures (marketing measures of firm success) and business growth performance (strategy measures of firm success), in the context of strategic marketing positioning decisions and suggests customer-based metrics may play a key role in measuring overall business achievements.

Design/methodology/approach – This is an empirical survey of 209 business-to-business services firms.

Findings – Customer-based performance (marketing measures) is associated with the choice of generic positioning and segmentation strategies, while strategic positioning choice (i.e. low-cost vs differentiation) is indirectly, rather than directly, associated with business growth performance. The "both" strategy, where firms simultaneously pursue both low-cost and differentiated strategies, leads to improved performance in these B2B services firms.

Research limitations/implications – The study potentially has industry- and/or service-specific limitations.

Practical implications – This research suggests that firms that cannot measure performance at the customer level may be failing to understand the outcomes of successful marketing programs and decisions. In addition, this research suggests that both operational efficiency and differentiation are keys to growth in B2B services.

Originality/value – This study reinforces the continued applicability of Porter's generic positioning and segmentation strategies for B2B services but suggests that performance differences between strategies in this context are best captured using a customer-based measure (share of wallet, lifetime value, retention rate and return on marketing investment) rather than a more general business growth measure.

Keywords Measurement, Business-to-business marketing, Product differentiation, Retention

Paper type Research paper

An executive summary for managers and executive readers can be found at the end of this article.

Introduction

In order to achieve superior performance in a particular market, firms need two things: an attractive position in that market and difficult-to-imitate resources (Matthyssens and Vandenbempt, 1998). In accordance with the resource-based view (RBV) of the firm (Barney, 1991), firms develop a superior position in the marketplace through the use of unique firm resources, which can include such diverse assets as information, inter-firm relationships, the ability to interact with customers, total quality practices and measurement capabilities (Gummesson, 2004; Hunt and Arnett, 2006; Ramani and Kumar, 2008).

In the course of developing these unique assets that lead to performance differences, firms can measure performance using a variety of metrics. Recent trends are to look at customer-based measures in addition to traditional financial measures to capture the results of marketing efforts and to examine the ability of a firm to interact with and develop relationships with its customers (Ramani and Kumar, 2008). Customer-based performance measures are measures that are not strictly financial in nature, such as customer lifetime value and retention. The purpose of this research is to investigate the relationship between customer-based metrics and the firm's strategic market positioning and segmentation decisions. In other words, the research asks whether customer-based measures can be used to investigate performance differences between firms based on strategic choice at the market level to reveal previously unexplored performance differences. This manuscript investigates the following:

- What performance differences are based solely on strategic marketing choices?
- What role do marketing activities at the customer level and their associated customer-based metrics play in achieving business growth?
- What is the role that customer-based metrics play in measuring the overall performance of the business?

To answer these questions we first determine how to measure the results of customer-based marketing activities and then compare performance across different marketing strategies.

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Linking customer-based performance and firm performance

Customer-based performance includes issues of customer retention, lifetime value and share of wallet. This performance derives primarily from marketing actions taken at the business unit level. Past attempts to link traditional marketing activities, such as advertising, to firm profitability have been problematic. Most marketing actions have only localized effects – these activities affect performance in just one business unit rather than across the firm in its entirety. Often these marketing activities have been viewed only as short-term influences on performance, in part because of the many interim steps that occur between advertising viewing and ultimate measures of performance such as firm sales and profitability growth (Eastlack and Rao, 1986; Erickson and Jacobson, 1992). Now, however, many firms, including the Marketing Science Institute's member companies, who have made measurement of marketing activities a research priority, believe that it is important to understand in more depth the relationship between marketing decisions, customer-based performance metrics and financial performance.

The first step in this analysis is to establish a link between customer-based performance and overall business performance. Business growth is the main objective of the resource-based view of the firm (Barney, 1991) and the net result of having unique assets and capabilities. The idea is that as firms' marketing programs and great products retain customers over time and gain more of their business, these activities should translate into firm growth. As customer-based performance versus competitors is demonstrated, ultimately, business growth should increase, leading to the first hypothesis of this research:

H1. Increased customer-based performance is associated with increased business growth.

Positioning and segmentation decisions as related to customer-based metrics and business-unit performance

Marketing decisions for positioning and segmentation

The strategic decisions most important to the marketing function are positioning and segmentation (Bonoma and Crittenden, 1988). Positioning is how the business unit delivers value to customers and wants customers to think of its products and service, relative to other offerings in the market. Positioning is generally considered a fundamental marketing management decision (Kalafatis *et al.*, 2000; Kotler and Keller, 2008; Hooley *et al.*, 1998).

Different types of firms in particular industries pursue different positioning strategies (Miller, 1986) and there can be many paths to success, even within one industry, in terms of market positioning. In business markets, in particular, positioning must be clearly defined, as business marketers do not typically rely heavily on advertising and communications to reinforce their message (Kalafatis *et al.*, 2000) and because of increasing competitive pressures (Kotler and Pfoertsch, 2007; Matthyssens and Vandenbempt, 1998). After the positioning choice has been made, segmentation involves deciding which customer groups best fit with the chosen position. These decisions are basic to the operation of all businesses and the majority of marketing managers' time is focused in these arenas (Porter, 1980, 1985).

Many strategic and branding choices are made by the company on a firm-wide basis. A number of strategic typologies, such as Miles and Snow (1978), describe the adaptive capabilities of the firm as a whole. However, because positioning and segmentation are marketing strategy decisions that are made on a sub-firm basis, such as that of a strategic business unit, the Porter strategic marketing framework was chosen for this analysis. Porter's framework applies at the business unit level of the firm.

In Porter's framework, the two fundamental market positions for theoretically maximizing profits are to position the unit to achieve lower costs or to increase revenues through differentiation. Low-cost (LC) business units minimize costs and pass those savings on in the form of lower prices. Differentiators (DF) offer something unique (product, service component, geographic location) for which they charge a price premium. In addition to their continued study and validation in an academic context, in preliminary interviews with business-to-business services marketing managers (the context of this research), semantics and concepts from the Porter positioning framework were repeatedly used by the interviewees. Using the Porter framework appeared to capture how these types of business units make and articulate strategic marketing decisions.

While most business units choose either a low-cost OR differentiated strategy, there are units that try to deliver value by being simultaneously both low-cost AND differentiated, a "both" (BT) strategy (Treacy and Wiersema, 1993). Again, in qualitative interviews prior to the quantitative research, firms indicated that they needed to be "operationally excellent" (Treacy and Wiersema, 1993) simultaneously providing low-cost value along with differentiating from competitors to succeed in the current business environment. Some business units, however, never make a clear positioning choice (or lose their former position as the environment changes) and are "stuck-in-the-middle" (Porter, 1980, 1985; Campbell-Hunt, 2000). These firms fail to reap the benefits (or profits) of either positioning strategy.

The theoretical framework for these different positioning choices comes in part from the field of economics. There are costs associated with each strategy. Differentiation incurs transaction costs to obtain offer uniqueness. In contrast, cost leadership requires manufacturing or production investments to produce low-cost products. In the B2B services context (software and insurance) of this paper, these different types of costs can easily be identified. For example, in the insurance industry, speed to settle a claim may differentiate one firm from others, while incurring added cost to deliver that uniqueness. In software, differentiation may be achieved (at increased cost) by designing a product that functions identically across different operating systems. Insurance production costs include developing efficient underwriting processes, while in software these costs would be initial code development costs (Jones and Butler, 1988). The "both" business unit invests such that higher transaction costs are offset by higher revenues from products that customers are willing to pay a premium for, while higher production investments are offset by higher margins due to scale economies.

The empirical research investigating whether specific positioning strategies are associated with improved

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performance is not clear-cut. Because positioning is primarily a marketing strategy that takes place within a particular business unit, properly assessing the success of implementing these strategies should involve an analysis of how customer-based performance outcomes, rather than overall business performance outcomes, are related to overall strategy. In fact, these customer-based metrics might be the missing link in the somewhat ambiguous empirical research stream attempting to relate position selection to firm performance.

Most studies have sought evidence for the "pure" strategy decisions (either low-cost or differentiation) with some also accruing (frequently unexpectedly) evidence of the efficacy of implementing the "both" strategy (Hill, 1988; White, 1986; Wright *et al.*, 1991). Few studies have sought evidence of the stuck in the middle (SIM) strategy, although Kim and Lim (1988) did uncover SIM companies, finding that they perform less well in terms of return on assets than companies with a clear strategy. Conversely, a meta analysis of 17 studies claims that SIM firms do not under-perform others, particularly if demand conditions do not support differentiation (Campbell-Hunt, 2000). Prior studies used various measures of firm or business-unit performance rather than a marketing-oriented dependent variable and no dependent variable was used consistently across studies. In addition, few of the prior strategy studies investigated services marketing. This research attempts to extend knowledge in this domain by investigating whether customer performance measures are the more immediate outcomes of positioning strategic decisions instead of firm-level performance measures in a services marketing context.

Marketing decisions in service industries

Services marketing, particularly B2B services, relies heavily on positioning and segmentation decisions to achieve firm performance. In insurance, for example, there are few tangible product differences (but many intangible ones). Specific insurance product offerings are able to be replicated without a substantial investment in R&D or in plant and equipment. In this environment, differentiation, based on intangible capabilities such as service quality or customer service capabilities, provides a real marketing positioning opportunity.

While Porter suggested that there might be no clear better-performing (pure) strategy, he emphasized that low-cost is difficult to achieve and sustain. Certainly in services, achieving differentiation is more important than achieving low cost, because service delivery cost structures are impacted more by human costs than physical process costs (Farrell *et al.*, 1993). Human costs generally are less susceptible to economies of scale than process costs. In e-business firms, marketing differentiation has been shown to lead to superior performance, perhaps because of superior technology that improves understanding of customer segments (Koo *et al.*, 2007). Thus, customer-based performance (CBP) is expected to be the same across units pursuing differentiation or "both" strategies, since both involve a differentiation component. However, lower performance is expected to result for services pursuing a pure low-cost strategy. Focusing on a pure low-cost strategy ignores the service components that often distinguish one service from another (Zeithaml *et al.*, 2005). Therefore:

H2. $CBP_{BT} = CBP_{DF} > CBP_{LC} > CBP_{SIM}$ (where CBP = Customer-Based Performance, BT = Both, DF = Differentiation, LC = Low-Cost, SIM = Stuck-in-the Middle).

As outlined above, Porter suggests that it should be possible to achieve suitable performance following any strategy but SIM. We posit that customer-based metrics are most important in determining performance differences because positioning strategies are inherently a marketing and customer-based set of decisions operating at the business unit level, rather than at the overall firm level. Therefore, we predict that there will be no performance differences between strategies based on an analysis of firm business growth alone:

H3. $BG_{BT} = BG_{DF} = BG_{LC} = BG_{SIM}$.

Within the low-cost vs differentiation framework, the business unit also must decide whether to pursue broad or narrow sets of customers, i.e. a broad (BD) versus focused (FD) orientation in its segmentation strategy. These strategic choices are described below:

- *Cost-focus, narrowly segmented*. Seek cost advantage in a particular target segment.
- *Differentiation-focus, narrowly segmented*. Serve special needs in certain target segments.
- *Cost-focus, broadly targeted*. Seek cost advantage by homogeneously serving a mass market.
- *Differentiation-focus, broadly targeted*. Serve special needs of buyers across the mass market.

Business units following a broad segmentation strategy seek to achieve performance through economies of scope (Ansoff, 1965). Units serving the multiple needs of the mass market develop a multiplicity of products rather than depend upon a narrow product line, allowing for opportunities to up-sell and cross-sell and thereby increase share of wallet and customer retention. Therefore, we hypothesize that customer-based performance will be superior for a broad versus a focused strategy (many market segments versus few) because of the increased opportunities to serve and therefore retain customers:

H4. $CBP_{BD} > CBP_{FD}$.

According to Porter, the focused strategy implies a "limitation" in market growth. Since the focus of the unit is narrow, there will be boundaries on the achievable level of overall growth; there are simply fewer possible customers available. A business unit can be profitable in a niche market, and many are, but opportunities for growth are limited because of the limited number of customers. We hypothesize that firm-level business growth will also be superior with the broad versus focused segmentation strategy:

H5. $BG_{BD} > BG_{FD}$.

Methodology

Construct and survey development

Managers responsible for business-to-business product and market decisions in the software and insurance industries were used in all phases of scale and survey development. Interviews with 30 managers to understand how business units manage customer information resulted in concepts that were operationalized into constructs and developed into specific survey items. Recent research suggests that customer-based measures should be considered as a whole (Rust *et al.*, 2004; Ramani and Kumar, 2008). Potential measures for marketing activity derive primarily from the services marketing and strategic management literatures. In services,

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some customer performance-based measures are based on improvements in the situations of individual customers. Since business-to-business marketing often focuses on managing relationships with individual customers, appropriate customer-based measures perhaps also should be based on changes in the customer relationship. Suggested outcome dimensions include customer retention (Gummesson, 2004; Sheth and Parvatiyar, 1995; Sheth and Sisodia, 1995), lifetime customer value, which measures the monetary value of the customer relationship over the length of time as a customer (Ryals, 2005; Rust *et al.*, 2004; Gummesson, 2004; Reinartz and Kumar, 2003), and share of wallet, or the percentage of a particular customer's business possessed by the firm (Rust *et al.*, 2004; Gummesson, 2004; Reinartz and Kumar, 2003). This literature also suggests that these customer-based measures might act as intermediary indicators of marketing activity success, which in turn ultimately contributes to traditional measures of improved firm performance at the strategic level (Rust *et al.*, 2004; Bahadir and Kapil, 2002). Therefore, a summed measure of customer-based performance was created consisting of business unit retention rate, lifetime customer value, share of wallet and return on investment (ROI). Existing scales were used for the strategic variables (Zahra and Covin, 1993; Kohli and Jaworski, 1990). The theoretical underpinning for the growth-oriented dependent measures was the resource-based view. Nearly one-third of the prior studies empirically investigating Porter's positioning and segmentation strategies also used growth as dependent measures (Campbell-Hunt, 2000).

The initial survey was pre-tested with three marketing managers in the target industries for item clarification. A modified instrument was then paper-and-pencil pre-tested by 47 managers. The pretest results were analyzed by exploratory factor analysis (principal components, Varimax rotation), supporting scale validity and reliability. Items that did not load onto factors were eliminated from the final survey. The appendix contains the final items.

Survey administration

A marketing research company contacted firms from the sample to prescreen for the person in the business unit with the most knowledge of three areas: customer information management practices, strategic concerns and performance. Interview requests were mailed to that person and appointments were scheduled. The survey was administered by telephone to 209 marketing executives in the software (109) and insurance (100) industries. In several cases multiple informants in the same business unit were used to provide the necessary combination of organizational knowledge.

Sampling, response rate and sample

Business-to-business (B2B) services firms were used as the sample for several reasons. First, B2B customers are more likely to purchase multiple similar products from multiple vendors, for example, computers, than are individuals or households, who may only own one or just one brand. Thus, measures such as share of wallet will be more important in the B2B context than in the B2C context. Services firms were used because positioning choices are expected to be more important due to the intangible nature of the offerings. Respondents were selected from stratified random samples of business-to-business insurers (SIC Code 6331, NAICS Code 524126) and software companies (SIC code 7372, NAICS code 51121) from Dun and Bradstreet and Ward's Business Directory (Ventimiglia, 1999a, b). These two industries were chosen in part because they were industries familiar to the authors. By choosing one mature (insurance) and one growing industry (software), the robustness of the hypotheses could be tested.

The response rate to the survey was 48 percent on a company basis (209 of 433 companies) and 31 percent on a per contact basis (209 of 684 mailed contacts), with no difference by industry. *T*-tests were conducted to judge the risk of non-response bias. The respondents' characteristics were not statistically different from those who did not respond. Because of the necessity for scale development and because it was one of the first to use marketing performance variables in this particular strategic context, the study should be considered exploratory and scale development was treated as such.

Scale testing

Because of the exploratory nature of this research, the scales were developed using exploratory factor analysis, principal components method with a Varimax Rotation (see Table I). The scales loaded on each of the five factors, demonstrating discriminant validity. All item factor loadings were greater than 0.5, except for one item in the low cost scale, which was 0.487. Each factor had an Eigenvalue of greater than 1 and explained at least ten percent of the variance in the data (Hair, 1979). The Podsakoff and Organ (1986) one-factor test for common method bias indicated that common method bias likely is not a substantial risk in these data.

Cronbach's α demonstrated scale reliability. Composite reliability obtained from a five-factor CFA produced the following reliabilities: low-cost (0.65), differentiation (0.64), broad-focused (0.78), and customer-based performance (0.75) and business growth (0.79). Scales with composite reliabilities less than 0.7 were retained because they had been validated in prior research (Zahra and Covin, 1993) and they were close to the 0.7 cutoff for this exploratory work. In retrospect, developing new scales specifically for B2B services industries would have been the wiser course; we believe some of the difficulties with the scales are due to trying to fit physical-goods based measures into the services context.

Cluster analysis

The full sample was then divided into strategic categories using a two-step cluster analysis, following traditional strategy analytic methods (Campbell-Hunt, 2000). The full sample was used because no differences were found in responses across the industries for scales relating to customer based performance, low-cost, differentiation or broad versus focused segmentation by industry (*t*-tests, $p > 0.05$). There was a difference in business growth performance, which was to be expected. The fast-growing software industry reported a slightly higher mean on the business growth variable (4.12 versus 3.82) than the insurance industry.

A variant of *k*-means, the SPSS TwoStep™ procedure for four clusters was used to identify firms selecting different generic positions, as this method has been shown to provide a more accurate result than traditional *k*-means procedures (Chiu *et al.*, 2001). The TwoStep™ clusters shown in Figure 1 reveal four strategic categories similar to those hypothesized by Porter, as expanded upon by Treacy and Wiersema (1993).

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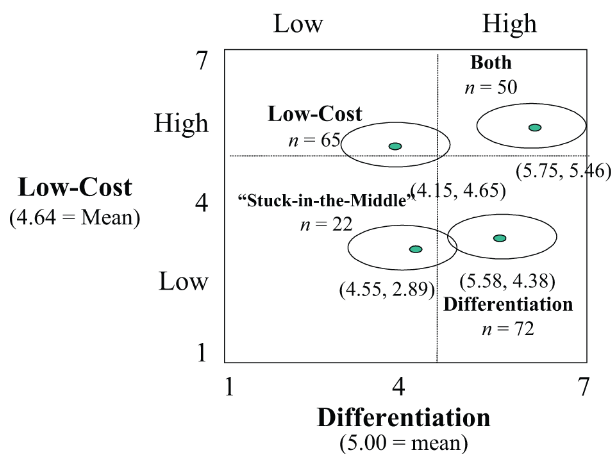
Table I EFA results for scale items

Scale item	Broad vs focused segmentation	Customer-based performance	Differentiation	Low cost	Business growth
Capacity utilization				0.758	
Operating efficiency				0.823	
Low overhead				0.602	
Reduce prodn. costs				0.487	
Uniqueness			0.639		
Segments			0.625		
High price segments			0.626		
Specialty segments			0.727		
Many segments	0.709				
Broad line	0.864				
Both products and services	0.614				
Multiple product lines	0.801				
Retention		0.768			
Share of wallet		0.663			
Lifetime value		0.814			
ROI		0.537			
Business unit sales					0.872
Business unit net income					0.839
Eigenvalue	3.85	2.25	1.72	1.68	1.18
% variance explained	13.94	12.64	11.41	10.88	10.57
Total variance explained	13.94	26.58	37.99	48.87	59.45

Notes: See the appendix for complete items; $n = 209$

Figure 1 Cluster means of strategic positioning categories



Notes: $n = 209$. Lines = sample mean
Source: From Porter (1985), Treacy and Wiersema (1993)

One group is clearly pursuing both (BT) low-cost and differentiation (DF = 5.75, LC = 5.46), as the score for each "pure" strategy is well above the mean (DF = 5.00, LC = 4.64). One group is clearly stuck-in-the-middle (DF = 4.55, LC = 2.89), with scores well below the mean. A third group is clearly differentiators (DF = 5.58, LC = 4.38), with the LC score far below the mean (they are high cost) and differentiation well above (highly differentiated). The final group, designated as "low cost" for this analysis, is far below the mean on differentiation (4.15) and just slightly above the mean on low-cost (4.65). The results were similar for each industry when analyzed separately.

In service industries, process scalability is difficult. Additionally, companies typically purchase on attributes other than price in these industries. Thus, it is not surprising that a very low-cost focused group was difficult to identify. Another explanation for the lack of a clear low-cost group is the tendency of firms, as has been theorized for the retail industry, to migrate from low-cost and niche positions to strategies that tend to bring about greater revenues and profits (Levy *et al.*, 2005). However, although not strongly seeking cost leadership, the LC group clearly are not differentiators. These firms are expending more effort to lower production costs, increasing operational efficiency, than either differentiators or the SIM group[1].

In the industry-level analysis, the younger industry, software, was more likely to pursue a differentiation strategy, whereas the more mature insurance industry was more likely to pursue the both strategy. Perhaps the more mature insurance industry has had the time to implement improved internal processes necessary for the both strategy, or perhaps success in the software industry truly depends on marketing differentiation.

Results

Table II clearly shows a positive, significant correlation between customer-based performance and business growth, supporting *H1*. Regressing CBP on BG results in a statistically significant equation ($F = 13.7$, $p < 0.001$) and coefficient for CBP. However, the equation accounts for only 5.8 percent of the variation in the data (adjusted R^2). Further analysis by sub-components of customer-based performance indicates that retention rate and business unit ROI are positively associated with business growth and are statistically significant. When sales growth and net income growth are

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Table II Correlations and descriptive statistics

	Business growth	Customer-based performance	Low cost	Differentiation	Broad vs focused segmentation
Business growth[a] **Cronbach $\alpha = 0.65$**	4.00 (0.48)				
Customer-based performance[b] **Cronbach $\alpha = 0.75$**	0.25**	5.00 (1.00)			
Low-cost[b] **Cronbach $\alpha = 0.65$**	0.09	0.21**	4.64 (0.91)		
Differentiation[b] **Cronbach $\alpha = 0.64$**	0.04	0.42**	0.14*	5.00 (0.92)	
Broad vs focused[b] **Cronbach $\alpha = 0.78$**	0.07	0.25**	0.06	0.23**	4.60 (1.17)

Notes: $n = 209$; Correlations: Two-tailed significance; $^{*}p < 0.05$ level, $^{**}p < 0.01$ level; Numbers on the diagonal are means (σ); In all cases, higher numbers are higher levels of the variables; [a]The range for business growth is 0-6.38 (log of original variable); [b]For customer-based performance and all strategy variables (LC, DF and SE), the range is 1-7

examined separately, focusing on retention efforts versus the competition is positively associated with sales growth, whereas net income growth is associated with a focus on both retention and ROI. The results differ slightly across the two industries, with the most notable being a positive relationship between retention efforts and lifetime value with net income growth in the insurance industry versus software, and with retention being related to sales growth for software.

The analyses show partial support for *H2*. Services units pursuing a both or differentiation strategy outperform the low-cost and SIM groups in terms of customer-based performance (BT, DF > LC: $p < 0.05$; BT, DF > SIM: $p < 0.01$). Differentiators are better than both low-cost and SIM groups for each of the four individual components of CBP. However, the "both" strategy units do not retain customers more than either of the less successful groups, and they do not have higher life time customer value than low-cost business units.

In terms of *H3*, none of the strategic choices provides superior results in terms of business growth performance. Results were similar on the industry level. This hypothesis, predicting no performance, differences, was supported.

For *H4* and *H5*, the results of another TwoStep™ cluster analysis, in which all three variables (low-cost, differentiation and the segmentation focus) were included in the analysis, produced four distinct clusters. Two groups had a broad segmentation: broad differentiators (BDIFF) and broad both (BBT) groups. One group had a focused strategy but was also pursuing the both strategy (FBT). Regarding *H4*, the results support predictions of superiority of the both strategy, but less strongly than hoped. The broad both strategy is superior to the focused both and SIM in terms of customer-based performance (BBT > FBT: $p < 0.10$; BBT > SIM: $p < 0.05$). However, the performance differences between broad differentiators and focused both is significant only at the 0.10 level, providing weak support for the hypothesis that in a services context the performance of a broad strategy should be superior to the focused. We find no support for *H5*; neither the broad nor the focused group is superior in terms of business growth. All groups perform better than SIM at ($p < 0.05$).

To help understand these subtle performance differences in more detail, the analysis was performed on the sub-components of customer-based performance. Firms pursuing a broad segmentation strategy and both positions (BBT) are associated with higher levels of all aspects of customer-based performance, whereas broad differentiators (BDIFF) are likely to obtain growth by increasing share of wallet. Those pursuing focused segmentation and the both strategy (FBT) focus on higher lifetime customer value. Although performance differences are observed among these groups, the path to customer-based performance is quite different in each.

Discussion

Overall, this research reinforces the applicability of Porter's generic positioning and segmentation strategies in B2B services industries. Importantly, performance differences are observable particularly as they relate to marketing-related measures, which one would expect since positioning and segmentation are marketing measures. These customer-based metrics may provide the missing link in understanding performance differences between positioning strategies and should be investigated further beyond this initial, exploratory study.

Marketing has been bombarded by requests from management to demonstrate performance improvements for each and every marketing activity. While this research helps illuminate why performance differences may have been difficult to isolate in past research, the major contribution here is increasing the understanding of the role that marketing activities and their associated metrics play as an interim step to achieving and measuring business growth. These results indicate support for the idea that focusing on longer-term customer metrics such as retention and lifetime value are valuable, as they also contribute to firm growth.

In these B2B services firms, general growth performance measures do not capture performance differences related to positioning and segmentation decisions, essentially marketing strategy choice decisions. However, generic positioning and segmentation strategies reveal differences between firms in terms of customer-based performance, which in turn is associated with business growth performance. As predicted

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for these services firms, differentiation matters for customer-based performance, with firms pursuing a differentiated or both strategy outperforming either low-cost or SIM firms. Differentiation is the heart of services marketing and in these data it is through differentiation that customer-based performance is achieved.

When segmentation is included in the mix, it is the "both" strategy that is most highly associated with customer-based performance, rather than the "broad" segmentation as predicted. Both the "focused both" and "broad both" strategies outperform the SIM in customer-based performance. In fact, there is only a weak statistical superiority for "broad differentiators" versus those pursing a "focused both" strategy. It is possible that these firms are not yet sophisticated enough to translate their customer knowledge into other marketing activities that would improve performance. A more likely explanation is that business-to-business services firms appear to need both operational efficiency and differentiation to be successful.

Prior research provides weak support for the existence of the "both" strategy or for its superiority in terms of performance; however, using customer-based metrics helps tease out differences. Thus, the second major contribution of this research is the support for the superiority of the "both" strategy as a viable strategy in the B2B services context, which we suggest could be renamed as the "strategically excellent" positioning strategy. The fact that broad-based performance measures such as net income and sales growth do not provide, in these data, the level of detail necessary to uncover performance differences, is consistent with prior research. It has been difficult historically for researchers to support a clear linkage between performance and generic strategy selection based on traditional measures (Campbell-Hunt, 2000); these data provide another way, a customer-based way, to analyze performance differences on the basis of generic competitive strategy.

The final contribution of this research is the suggestion that firms that cannot measure at the customer level might be failing to capture the results of successful marketing programs. Firms need sophisticated marketing systems, both operational and analytical, to pursue differentiation and strategically excellent strategies. In particular, differentiators need to meld customer information, purchasing patterns and the results of marketing research to develop customer knowledge based differentiation (Koo *et al.*, 2007). Appropriate customer-based, measures are needed to see the performance differences. In other words, marketing performance measures are needed to see the results of marketing actions (Bonoma and Crittenden, 1988).

Limitations and future research

This research, like all research efforts, has several limitations as well as several opportunities for expansion. With only two industries and 209 observations testing the hypotheses, additional empirical testing is required to test their generalizability. Other industries should be studied to refine further the measures and scales. Research indicates that self-reports of managerial (subjective) performance, if the managers are at the appropriate level in the organization, are highly consistent with actual (objective) performance levels (Robinson and Pearce, 1988). As our statistical analysis has demonstrated, the professional pre-screening process used personal telephone interviews to careful selected informants able to answer questions across organizational boundaries and to minimize concerns about single informants.

Objective measures of performance would also aid understanding of the performance differences based on strategy selection. Since the unit of analysis was the business unit and not the firm as a whole, publicly available objective measures are not available. In spite of research that indicates that self-reports of managerial performance, if the managers are at the right level in the organization, are highly consistent with actual performance (Dess and Robinson, 1984; Robinson and Pearce, 1988), the self-reports used here mean that the research cannot be triangulated by an outside source. A more robust study using publicly-available business growth measures, perhaps with smaller firms where firm performance and business unit performance would be identical, would be a natural extension of this work.

Managerial implications

Overall, this research bolsters the case of the manager who is under close scrutiny today to justify the results of all marketing efforts and to invest in CRM and similar implementations to increase customer-based performance and performance measurement. Marketing analysis systems, by virtue of the difficult-to-imitate data they collect, allow managers to measure and manage key customer outcomes such as customer retention rate, lifetime value, share of wallet and ROI. Happily for those implementing customer-based systems and for marketing professionals, these and other outcomes of marketing database and analytical programs appear in these data to be related to the firm's sales and net income growth. Customer-based performance metrics may be the "missing link" between marketing efforts and firm success.

This research contributes to understanding at a more detailed level the relationships between strategy decisions and marketing metrics. As a result of this research, managers might feel more confident that their efforts to collect, store and analyze customer information in a customer-based system are worthwhile to the firm. Managers also might consider the overall role that strategy selection plays in relationship to customer-based performance. This research supports the notion that, in business-to-business services, strategic choice, particularly differentiation, matters. In spite of increased emphasis in customer-based systems as a way of approaching and managing customers, these data suggest that managers ignore basic decisions such as strategic choice at their peril.

Clearly, in spite of the relationship between customer-based performance and firm growth, the SIM strategy is unlikely to lead to improved customer-based measures, even with a customer-based system. Managers should carefully consider positioning and segmentation strategy and implement these strategies as well as sophisticated customer databases and customer relationship management processes in their organizations. Continued research in this area is important, since using customer-based measures allows us to see differences in performance based on strategic selection that have not always been clear in the past.

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Note

1 The lack of a clear low-cost cluster also could be due to measurement issues, since the strategy scales had the lowest reliability statistics of the scales used in this research.

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Appendix. Final survey

Low cost positioning

(1 = Much lower, 4 = The Same, 7 = Much higher): Rate the extent to which your business unit focuses on the following in comparison to your major competitors (Zahra and Covin, 1993; Kohli and Jaworski, 1990).

- Level of capacity utilization.
- Level of operating efficiency.
- Low overhead cost.
- Emphasis on finding ways to reduce cost of production.

Differentiation positioning

(1 = Much lower, 4 = The same, 7 = Much higher): Rate the extent to which your unit focuses on the following in comparison to your major competitors (Zahra and Covin, 1993; Kohli and Jaworski, 1990):

- Uniqueness of your products.
- Targeting clearly identified segment or segments.
- Offering specialty products.
- Offering products suitable for high price segments.

Broad vs focused segmentation

(1 = Much lower, 4 = The same, 7 = Much higher): Rate the extent to which your unit focuses on the following in comparison to your major competitors (Zahra and Covin, 1993):

- Serving many market segments.
- Offering both products and services
- Offering a broad line of products across categories.
- Offering multiple product lines across categories.

Business growth

Over the past two years, what % changes have you observed for your business unit?

- Sales: −30%, −25%, −20%, −15%, −10%, −5%, 0%, +5%, +10%, +15%, +20%, +25%, +30%.
- Net income: −30%, −25%, −20%, −15%, −10%, −5%, 0%, +5%, +10%, +15%, +20%, +25%, +30%.

Customer-based performance

(1 = Low, 4 = The same, 7 = High): Answer for your unit versus its competition:

- How successful do you think your unit has been in retaining customers over the last 2 years?
- Where 1 is low customer penetration and 7 is high customer penetration (share of wallet), how well do you think your unit sells to current customers?
- How would you characterize the lifetime value of your unit's customers? (lifetime value is the total value to the firm of one customer over time).
- How would you characterize your unit's ROI?

Executive summary and implications for managers and executives

This summary has been provided to allow managers and executives a rapid appreciation of the content of this article. Those with a particular interest in the topic covered may then read the article in toto *to take advantage of the more comprehensive description of the research undertaken and its results to get the full benefits of the material present.*

Marketing has been bombarded by requests from management to demonstrate performance improvements for each and every marketing activity. No easy task, especially when difficulties arise in isolating performance differences. What's needed is an increased understanding of the role that marketing activities and their associated metrics play as an interim step to achieving and measuring business growth.

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In "Marketing strategy selection, marketing metrics, and firm performance" Debra Zahay and Abbie Griffin find support for the idea that focusing on longer-term customer metrics such as lifetime value and retention are valuable as they also contribute to firm growth. They investigate whether customer performance measures are the more immediate outcomes of positioning strategic decisions instead of firm-level performance measures in a services marketing context.

Services marketing, particularly B2B services, relies heavily on positioning and segmentation decisions to achieve firm performance. In insurance, for example, there are few tangible product differences but many intangible ones. Specific insurance product offerings can be replicated without a substantial investment in R&D or in plant and equipment. In this environment, differentiation, based on intangible capabilities such as service quality or customer service capabilities, provides a real marketing positioning opportunity.

In order to achieve superior performance in a particular market, firms need two things: an attractive position in that market and difficult-to-imitate resources. In accordance with the resource-based view (RBV) of the firm, firms develop a superior position in the marketplace through the use of unique firm resources, which can include such diverse assets as information, inter-firm relationships, the ability to interact with customers, total quality practices and measurement capabilities.

In the course of developing these unique assets that lead to performance differences, firms can measure performance using a variety of metrics. Recent trends are to look at customer-based measures in addition to traditional financial measures to capture the results of marketing efforts and to examine the ability of a firm to interact with and develop relationships with its customers. Customer-based performance measures are not strictly financial in nature, such as customer lifetime value and retention.

Zahay and Griffin investigate the relationship between customer-based metrics and the firm's strategic market positioning and segmentation decisions. In other words, they ask whether customer-based measures can be used to investigate performance differences between firms based on strategic choice at the market level to reveal previously unexplored performance differences. The authors ask:

- What performance differences are based solely on strategic marketing choices?
- What role do marketing activities at the customer level and their associated customer-based metrics play in achieving business growth?
- What is the role that customer-based metrics play in measuring the overall performance of the business?

Overall, the findings reinforce the applicability of Porter's generic positioning and segmentation strategies in B2B services industries. Importantly, performance differences are observable particularly as they relate to marketing-related measures, which one would expect since positioning and segmentation are marketing measures. These customer-based metrics may provide the missing link in understanding performance differences between positioning strategies.

This research bolsters the case of the manager who is under close scrutiny today to justify the results of all marketing efforts and to invest in CRM and similar implementations to increase customer-based performance and performance measurement.

Marketing analysis systems, by virtue of the difficult-to-imitate data they collect, allow managers to measure and manage key customer outcomes such as customer retention rate, lifetime value, share of wallet and ROI. Happily for those implementing customer-based systems and for marketing professionals, these and other outcomes of marketing database and analytical programs appear in these data to be related to the firm's sales and net income growth.

Managers might feel more confident that their efforts to collect, store and analyse customer information in a customer-based system are worthwhile. They might also consider the overall role that strategy selection plays in relationship to customer-based performance. In business-to-business services, strategic choice, particularly differentiation, matters. In spite of increased emphasis in customer-based systems as a way of approaching and managing customers, these data suggest that managers ignore basic decisions such as strategic choice at their peril.

Managers should carefully consider positioning and segmentation strategies and implement them as well as sophisticated customer databases and customer relationship management processes.

Firms that cannot measure at the customer level might be failing to capture the results of successful marketing programs. Firms need sophisticated marketing systems, both operational and analytical, to pursue differentiation and strategically excellent strategies. In particular, differentiators need to meld customer information, purchasing patterns and the results of marketing research to develop customer knowledge based differentiation. Appropriate customer-based measures are needed to see the performance differences. In other words, marketing performance measures are needed to see the results of marketing actions.

(A précis of the article "Marketing strategy selection, marketing metrics, and firm performance". Supplied by Marketing Consultants for Emerald.)

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