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Assessing Competitive Marketing Advantage in Arts & Cultural Organizations

Competitive advantage is a foundational construct in the strategy literature and in MBA strategy classes around the world. As developed by Porter (1980), three generic strategies can produce advantage. Product differentiation relies on innovation to develop product offerings that are superior to competitors' offerings. Cost leadership relies on operational and supply chain efficiencies that reduce costs below those of competitors. A focus strategy seeks advantage by serving a narrowly-defined product market especially well.

Subsequent conceptualizations have offered additional insight as to marketing's role in creating advantage. For example, Miller (1988) concludes that there are four generic strategies, three quite similar to Porter's – product/innovation differentiation, breadth versus focus, and conservative cost control – plus marketing differentiation, which uses “advertising, prestige pricing, and market segmentation, to create a unique image for a product” (Miller 1988, p. 284). Treacy and Wiersema (1993) propose three value disciplines that lead to advantage. Product leadership is similar to Porter's (1980) product differentiation strategy, emphasizing greater value by developing superior products. Operational excellence is similar to Porter's cost leadership strategy, emphasizing greater value by increasing convenience and cutting costs of production. Their customer intimacy discipline was novel, and it emphasizes intimate relationships with customers to develop tailored offerings that better match customer desires.

We contribute to the competitive advantage literature in several ways. First, we offer a parsimonious conceptual model that integrates the concepts identified above to provide fresh insights into marketing's role in achieving advantage. We submit that marketing advantage accrues from the allocation of resources to marketing activities that create, communicate and deliver value to customers. We propose that four key marketing resource allocation activities – product investment, product portfolio expansion, marketing communications (MarCom) investment and customer relationship expansion – can create advantage.

Second, we define and measure these advantage-creating activities as allocations of resources and effort. Firms that implement intensive product investment and product portfolio expansion may achieve compelling product advantage. Firms that implement intensive MarCom investment and customer relationship expansion may achieve compelling customer advantage.

Finally, we relate these activities to three measures of performance: (1) customer response, (2) household utility, and (3) net income. Our initial analyses use objective, longitudinal, firm-level measures of performance and resource allocations for a large, national sample of arts and cultural organizations. We then replicate the analysis by combining household-level, patronage data with firm-level measures of resource allocations in a single geographic market. This triangulation of methods offers unique insights, demonstrating how some activities create advantage by attracting new customers while others increase individual customer utility.

Conceptual Framework

Our conceptual framework specifies four types of competitive marketing advantage, two each in the product and customer domains (see Figure 1). In each domain, we conceptualize the level of investment in a key activity and relative expansiveness of a related practice. A firm's strategy may also avoid large resource allocations to pursue product efficiency and/or customer efficiency, which is likely both operationally efficient (Treacy and Wiersema 1993)

and a cost leader (Porter 1980). This type of advantage may provide superior financial performance in some contexts, but we agree with others (Mittal et al. 2005; Rust, Moorman, and Dickson 2002) that operational efficiency and cost leadership advantages are the domain of accounting and operations management rather than marketing. The conceptual framework recognizes that allocating resources to specific marketing activities does not necessarily translate into superior firm performance. Likely moderators include measurement, firm, and industry characteristics. We now address each component of the framework in greater detail.

---- Insert Figure 1 about here ----

Product Investment, Portfolio Expansion and Product Advantage

Advantage in the product domain is achieved by investing in the product offering enhancements (which includes R&D and product development) and by expanding the product portfolio. Product investments can lead to a product differentiation advantage (Porter 1980) and performance leadership (Treacy and Wiersema 1993). Research in quality production (Golder, Mitra, and Moorman 2012) and return on quality (Rust, Moorman, and Dickson 2002) support links between quality and increased customer attraction, retention and equity (Rust, Lemon, and Zeithaml 2004) and higher firm performance (Voss & Voss 2000).

The other key product-related decision is product portfolio expansion. Firms may choose to focus resources on a small number of offerings or expand the portfolio to target multiple customer segments, flood the product space, and deter new entrants (Mainkar, Lubatkin, and Schulze 2006). The proliferation decision is especially pertinent in dynamic markets with frequent product updates, where firms decide on the number and variety of models to maintain in the marketplace. Empirical evidence largely supports a positive link between product portfolio expansion and firm performance. Kekre and Srinivasan (1990) report a positive link between product line breadth and market share and profitability in industrial and consumer markets. In a study of the personal computer industry, Bayus and Putsis (1999) report that product proliferation has a positive effect on customer demand but also a positive effect on costs, leading to net negative effects.

Theoretically, successfully combining product differentiation with product proliferation can create compelling advantage in the product domain. Frito-Lay's position in the savory-snack product segment offers an example (Forbes June 27, 2014; October 8, 2015). Its 30 brands control approximately 36% of the savory snack market, 60% of the potato chip market, and 72% of the tortilla and tostada chip market (Forbes, June 27, 2014). Pepsico's annual report claims that innovation accounted for more than 9% of net revenue in 2014 (<http://marketrealist.com/2015/02/pepsicos-focus-innovation-reaping-rewards/>).

MarCom Investment, Customer Relationship Expansion, and Customer Advantage

The customer domain focuses on two strategies for influencing customer perceptions, intentions, and purchase behavior. One focuses on the level of investment in MarCom, which is part of a brand equity strategy designed to build brand preference, loyalty, and attachment (Park et al. 2010). We refer to the advantage that accrues from these brand-building activities as brand differentiation (Mizik and Jacobson 2008). A pure brand differentiation advantage may rely entirely on mass media messaging with no customer interaction. Brand differentiation can enhance perceptions of quality (Kirmani and Rao 2000), influence patronage decisions (Morgan and Rego 2009; Varadarajan 2015), and increase both market share (Smith and Park 1992) and future stock returns (Mizik and Jacobson 2008).

The other customer-related activity focuses on customer relationship expansion. This entails customer relationship management practices yielding insights into customer interactions that can inform targeting tactics. A fully-developed customer intimacy advantage involves deep

relationships with customers built on bilateral communications and interactions that enhance value for the customer and the firm (Treacy and Wiersema 1993). Empirical findings linking relationship efforts to firm performance indicate that “relationship investment has a large, direct effect on seller objective performance” (Palmatier et al. 2006, p. 150).

Firms that achieve brand differentiation along with customer intimacy can establish compelling customer advantage. For example, Apple is increasingly-recognized as a customer-centric firm that creates intimate relationships with its customers (<http://leadingcustomercentricity.blogspot.com/2010/02/customer-intimacy-20-apple-how-leading.html>) through its music and applications platform delivered through iTunes and the App Store, and also through retail stores featuring intense service interactions highlighted by the Genius Bar. Combine this focus on customer intimacy with Apple’s #1 ranking in Interbrand’s 2015 “Best Global Brands Report,” and it becomes clear that Apple holds a compelling customer advantage over its competitors.

Linking Advantage to Firm Performance: Moderators, Tradeoffs and Tensions

Theoretically, combining product differentiation with product proliferation can achieve compelling product advantage and combining brand differentiation with customer intimacy can achieve compelling customer advantage. However, the effect of these activities on firm performance is likely moderated by measurement, firm, and industry characteristics.

Resource allocations to all four forms of advantage should have a decreasing positive impact on revenue performance (i.e., curvilinear). This suggests that the relationship with net income is likely to be an inverted U-shape. As revenue returns begin to decrease, the impact on bottom line changes from positive to negative. Different forms of advantage will also have different effects on recurring demand, or share of wallet, than new demand. For example, in the product domain, intensive product investment should enhance both current demand and new demand for an offering. Product proliferation, on the other hand, is frequently designed to attract new market segments, so portfolio expansion should have greater effects on firm-level measures of demand than they do on individual-level measures of demand (Siggelkow 2003).

It also seems likely that tradeoffs and constraints may limit opportunities to realize the value of advantage at the firm or industry level. We expect that small firms would find it especially difficult to combine multiple strategies and achieve superior performance (Voss and Voss 2013). As Treacy and Wiersema (1993) observe, only a few, exceptional companies succeed in resolving the inherent tensions between different approaches to achieving advantage.

At the industry level, extended channels can limit opportunities for manufacturers to develop intimate relationships with their end customers. Many successful consumer package goods companies make little effort to implement a approach and focus their customer efforts almost entirely on MarCom and brand-building. Likewise, a compelling product advantage may have relatively little impact on customer demand in industries marked by homogeneous commodity offerings, where customers place little value on variety or product superiority so that product efficiency may be the best strategy.

A Multi-level Empirical Study Linking Advantage to Demand and Net Income

We applied the conceptual framework to conduct an exploratory study. First, we assess the extent to which the conceptual framework explains performance for arts and cultural organizations. Second, we assess the extent to which the results provide actionable managerial insights. Ultimately, any conceptualization of competitive marketing advantage should inform managers as to which decisions and activities have the greatest impact on performance.

Firm and Household Data

We obtained firm-level measures for an unbalanced panel data of 4,483 arts and culture firms in the performing arts, including theater, opera, symphony, music, performing arts centers, and dance, and the visual arts, including art, science, technology, and history museums. The data covered 2009-2014 and the total number of observations was 15,999 (3.6 years on average). The two dependent variables are physical attendance and net income (i.e., total revenue minus total expenses). We included two firm-level control variables in the analyses, total expenses, a firm-size measure, and average price. The four types of marketing advantage are: (1) product investment – i.e., expenses associated with delivery of performances for performing arts firms and exhibitions for visual arts firms; (2) product portfolio expansion, or the total number of mission-related offerings (e.g., distinct productions for performing arts and number of distinct exhibitions for visual arts); (3) MarCom, measured as total marketing expenses minus marketing salaries and benefits; and (4) customer relationship expansion, which is the total number of subscribers and members.

To control for variations across geographic markets, we used zip code business pattern data from the census bureau to construct two factors. Arts competition is a formative construct composed of four measures: total number of arts and culture firms, total number of independent artists, total number of arts and entertainment employees, and total number of arts and culture employees. These measures capture both for-profit and non-profit activity. Leisure complements is a formative construct that includes measures of the number of restaurants, hotels and bars. The coefficient alpha exceeded .70 for both factors. We show summary statistics and a correlation matrix for the firm-level variables below the diagonal in Table 1.

To minimize endogeneity, we used lagged values for the firm-level, independent variables. In addition to addressing endogeneity, the use of lagged values for marketing advantage makes sense for theoretical and practical reasons. Theoretically, marketing advantage is a stable, strategic construct that endures beyond a single year's activity; correlations between lagged and current-year measures range from .49-.60. Practically, current customer preferences and decisions are directly influenced by their last transactions, which in the arts frequently occur in a previous season. To control for unobserved heterogeneity, we included fixed effects for year and a random intercept at the organization level. We present the results in Table 2.

----- Insert Tables 1 & 2 about here -----

We also collected box-office, household-level data for 15 arts and culture organizations in a single, mid-sized U.S. city for 2009-2014. A major enterprise data service company provided household income for each household. We geocoded every household and organization and calculated distances between each household and organization. Household-level data are household income, patronage activity and distance from household to organization for 15 arts and culture organizations. We aggregated patronage activity at the household-firm-year, that is, household i did or did not patronize firm j in year y . The 129,865 households were responsible for 331,059 firm-year transactions, or 2.55 transactions in six years, on average.

We matched the household-level data with firm-level data for the 15 organizations. We used the same lagged, firm-level independent variables in a non-linear model optimized with a dual quasi-Newton algorithm. Summary statistics and a correlation matrix for the household-level variables appear above the diagonal in Table 1, and coefficient estimates appear in Table 2.

Results and Implications

For each dependent variable, we show two models, one with control variables along with main effects, quadratics and interactions for the four types of marketing advantage and a second adding the firm size interactions. In each case, the fully specified model provides significantly better fit. In the Household logit model, distance from the household to the organization has a negative effect on utility and household income has a positive effect. Price has a negative effect on Attendance and Utility, and no effect on Net Income. Arts competition has a negative effect on Attendance and Net Income. Leisure complements have a positive effect on Attendance, which is consistent with demand agglomeration, and a negative effect on Net Income, consistent with competition.

We plot the results for marketing advantage and firm size in Figures 2 and 3. For each marketing advantage, we plot results covering three (two for the household results) standard deviations for small firms (less than the mean for Total Expenses) and large firms (greater than the mean for Total Expenses), following the skewed nature of the distributions.

----- Insert Figures 2 & 3 about here -----

The results for small firms in Figure 2 show that product investment and portfolio expansion have small positive effects on attendance and that portfolio expansion, but not product investment, has a positive effect on net income. Neither portfolio expansion nor product investment appears to influence household utility.

The effects for large firms in Figure 2 are much larger because a marketing advantage standard deviation for large firms is much greater than a standard deviation for small firms. Product investment has a strong positive effect on attendance and product portfolio expansion has a weaker positive effect on attendance, which is decidedly highest when both product advantages are high. But net income is also decidedly lowest when both product advantages are high. Finally, portfolio expansion appears to have no effect on household utility, and product investment shows an inverted U-shaped relationship with household utility that peaks around 1/2 standard deviation above the mean.

One implication is that product portfolio expansion represents a low-risk growth opportunity. It produces small increases in attendance for both small and large firms with little impact on net income or household utility. Collectively, this suggests that portfolio expansion is more effective in targeting new customers and less effective in encouraging current customers to buy more frequently. Another implication is that large firms can effectively leverage product portfolio expansion and product investments to drive higher attendance but that, at high levels of both, diminishing returns lead to lower net income and diminishing household utility. At very high levels of product investment, it appears that an arts organization becomes like a special occasion restaurant; people love to go on special occasions but not on a regular basis.

Looking at Figure 3, we see that small firms consistently do better – on attendance, net income, and household utility – as customer relationship expansion goes up. MarCom has a small positive effect on attendance but no effect on net income or household utility. For large firms, relationship expansion and MarCom investment have positive effects on attendance but high levels on both fail to produce a positive interaction. Relationship expansion also has a positive effect on net income and MarCom investment has a curvilinear relationship, with net income plummeting when both relationship expansion and MarCom investment are high. MarCom investment also has an inverted U-shaped relationship with household utility with utility plummeting at very high levels of MarCom. This finding is consistent with prior research finding an inverted U-shaped relationship between personal communication (email, snail mail, telephone) frequency and repurchase (Godfrey, Seiders, and Voss 2011).

The key implication is that customer relationship expansion offers a reliable way to increase firm performance with little downside unless it is combined with very high levels MarCom investment. The results also suggest that the arts and culture organizations in our sample may be overspending on MarCom, leading to increases in attendance only when relationship expansion is low and leading to much lower net income when relationship expansion is high. The household results indicate that the smaller sub-sample of large organizations appears to be actually alienating its customer base with excessive, unwanted MarCom.

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Table 1
Summary Statistics and Correlation Matrices*

	Household distance	Attendance/ Choice*	Net income/ HH income*	Total expenses	Lag price	Productiv estment	Portfolio expansion	MarCom investment	Relationship expansion	Mean/St dev
Household distance (log)	1	-0.002	-0.014	0.009	0.005	0.013	-0.004	0.013	0.001	28,294 17,309
Attendance/ Choice*		1	-0.000	0.253	0.006	0.222	0.266	0.190	0.301	0.057 0.232
Net income/ HH Income*			1	0.000	-0.001	0.000	0.001	-0.000	0.001	80,375 46,589
Total expenses				1	0.235	0.988	0.479	0.942	0.647	5,679,565 8,935,297
Lag price					1	0.268	-0.180	0.435	-0.010	30,699 16,111
Product investment						1	0.366	0.955	0.548	3,825,324 6,946,770
Portfolio expansion							1	0.302	0.657	63,078 66,838
MarCom investment								1	0.491	303,719 426,667
Relationship expansion									1	4,801 7,398
Mean		8.841	-2,144,378	2,492,588	20.79394	1,432,940	49.41491	140,437	1,312	
Standard deviation		1.859	11,066,616	11,994,992	36.37578	7,534,896	128.7956	539,237	5,794	

* Firm-level summary statistics and correlations appear below the diagonal and household-level summary statistics and correlations appear above the diagonal; firm attendance and household choice are grouped together and firm net income and household income are grouped together.

Table 2
Results for Firm- and Household Level Analyses

	Attendance [#]	Attendance [#]	Net income [#]	Net income [#]	Household [#]	Household [#]
Intercept	-0.088***	-0.061***	0.110***	0.094***		
Household Distance					-0.167***	-0.164***
Household Income					0.084***	0.085***
Arts Competition	-0.037***	-0.038***	-0.017**	-0.016**		
Leisure Complements	0.073***	0.069***	-0.038***	-0.038***		
Lag Price	-0.014***	-0.014***	0.003	0.002	1.399***	-3.619***
Total Expenses	-0.028*	0.071***	0.013	-0.057***	0.019	5.766***
Program Investment	0.191***	0.197***	-0.289***	-0.187***	-0.754***	-1.715***
Program Investment ²	-0.005***	-0.007***	0.001	0.015***	0.276***	-1.504***
Total Expenses × Program Investment		0.007		-0.049***		5.093***
Portfolio Expansion	0.055***	0.069***	-0.012	0.020**	-0.720***	-2.873***
Portfolio Expansion ²	-0.002**	-0.004***	-0.006***	-0.003***	0.064***	0.529***
Total Expenses × Portfolio Expansion		-0.004		-0.015***		1.964***
Portfolio Expansion × Program Investment	0.003**	0.005	0.006***	-0.038***	0.540***	-3.365***
Total Exp × Portfolio Expansion × Program Inv		0.000		0.004***		3.396***
MarCom Investment	0.031	0.061**	0.102***	0.013	1.277***	-0.409**
MarCom Investment ²	-0.002*	0.002*	-0.004***	-0.010***	-0.999***	-3.592***
Total Expenses × MarCom Investment		-0.026***		0.057***		4.129***
Relationship Expansion	0.083***	0.107***	0.114***	0.074***	-0.157***	2.303***
Relationship Expansion ²	-0.005***	-0.005***	-0.008***	-0.007***	0.172***	-0.934***
Total Expenses × Relationship Expansion		-0.025***		0.039***		-4.408***
MarCom Expenses × Relationship Expansion	0.001	-0.010**	-0.021***	-0.011***	0.355***	-0.849***
Total Exp × MarCom Inv × Relationship Exp		0.003***		-0.007***		2.791***
-2 LL	22245.7	22219.4	13089.3	12295.6	1354926	1341389

[#]All models included fixed effects for year. The firm-level models included random intercepts for firms, and the household-level model included fixed intercepts for each of the 15 firms.

*** $p < 0.001$; ** $p < 0.01$; * $p < 0.05$ (two-tailed)

Figure 1
Conceptualizing Competitive Marketing Advantage

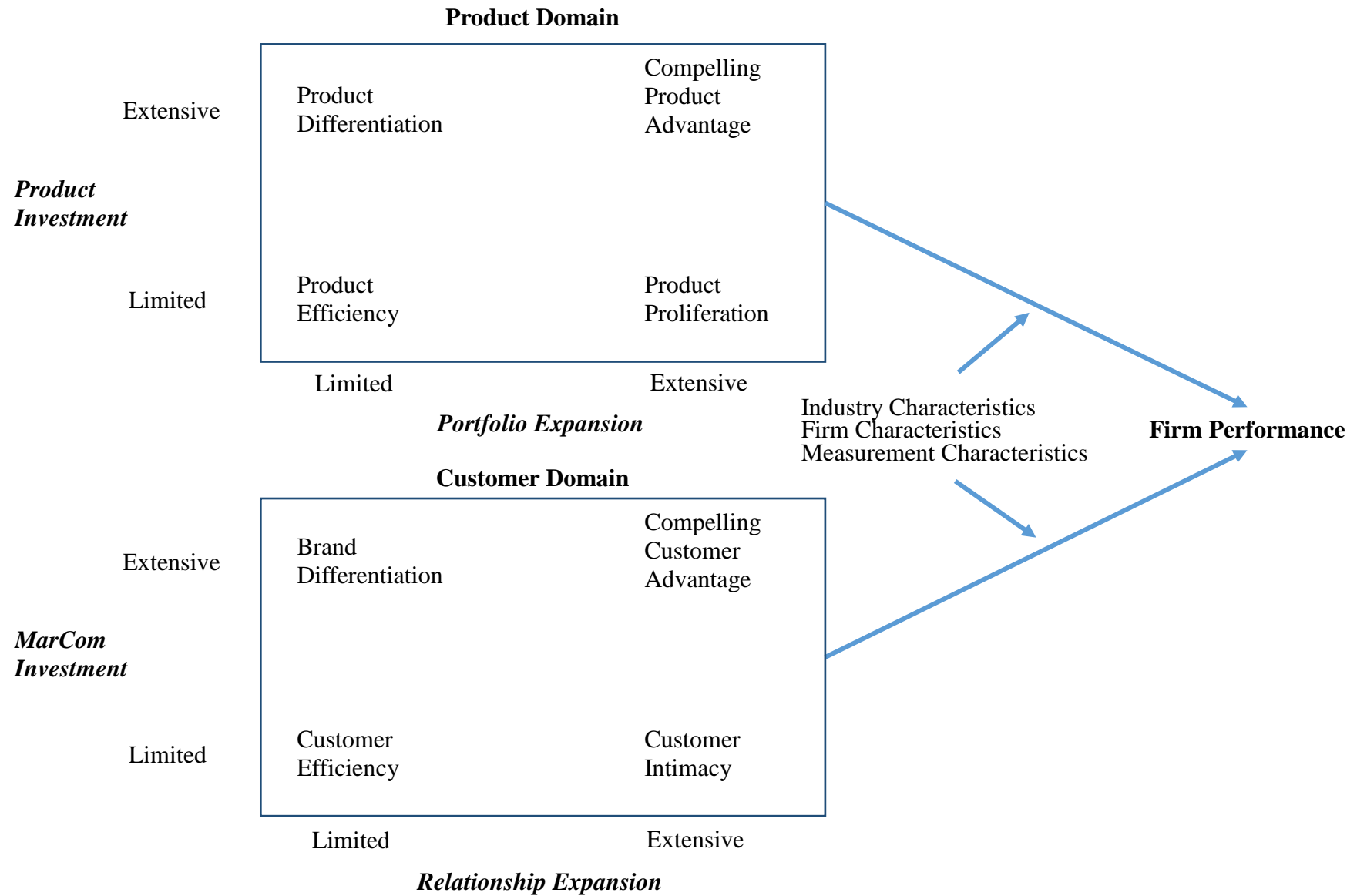
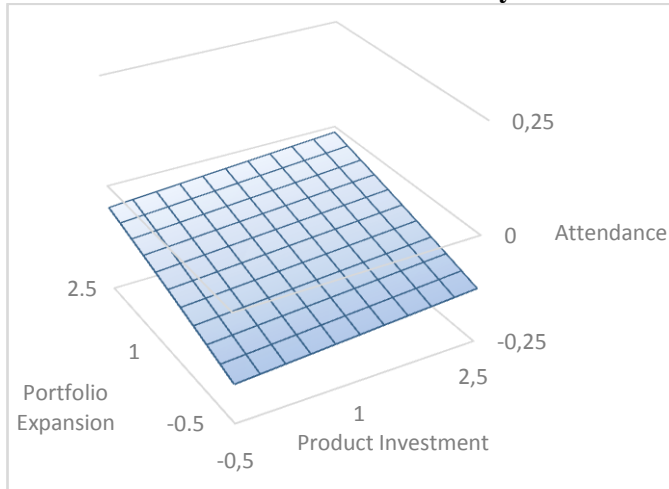


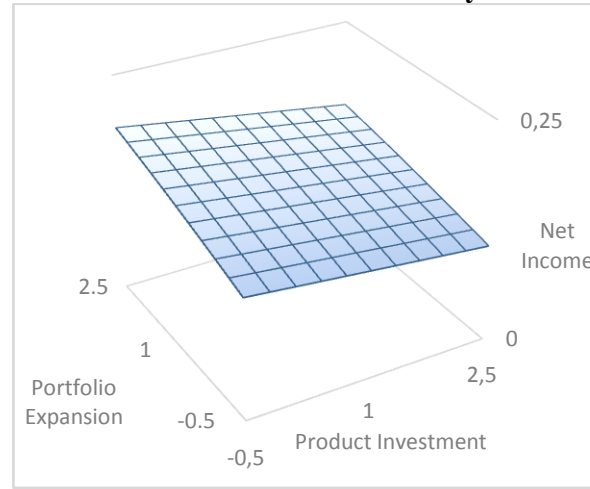
Figure 2

Assessing Advantage in the Product Domain – Portfolio Expansion vs. Product Investment

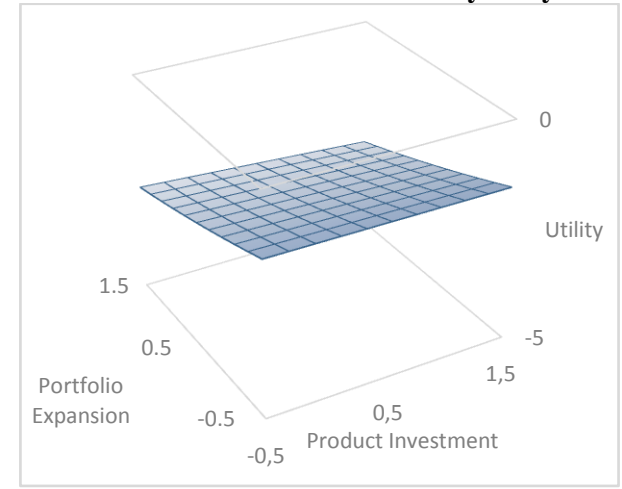
Panel A
Small Firms – Attendance Analysis



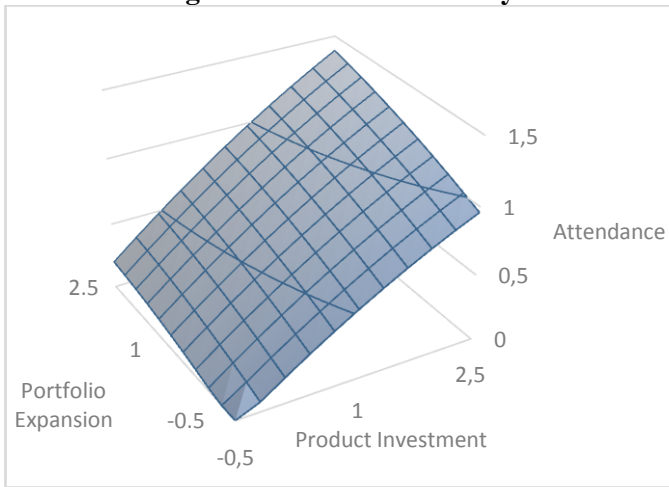
Panel B
Small Firms – Net Income Analysis



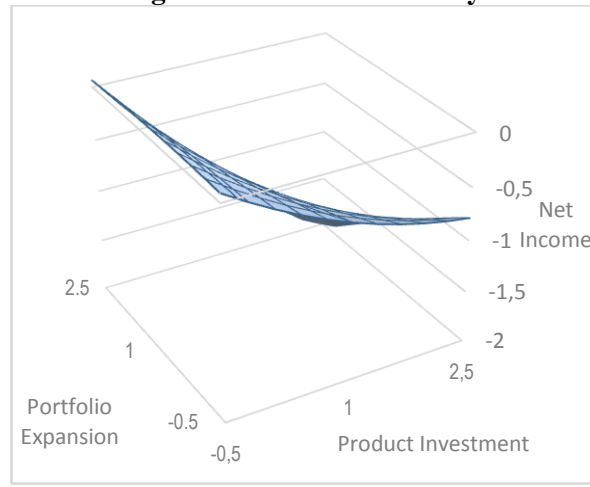
Panel D
Small Firms – Household-level Utility Analysis



Panel D
Large Firms – Attendance Analysis



Panel E
Large Firms – Net Income Analysis



Panel F
Large Firms – Household-level Utility Analysis

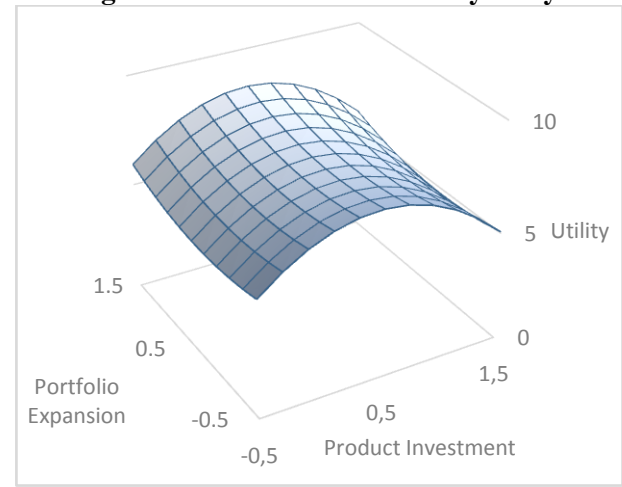
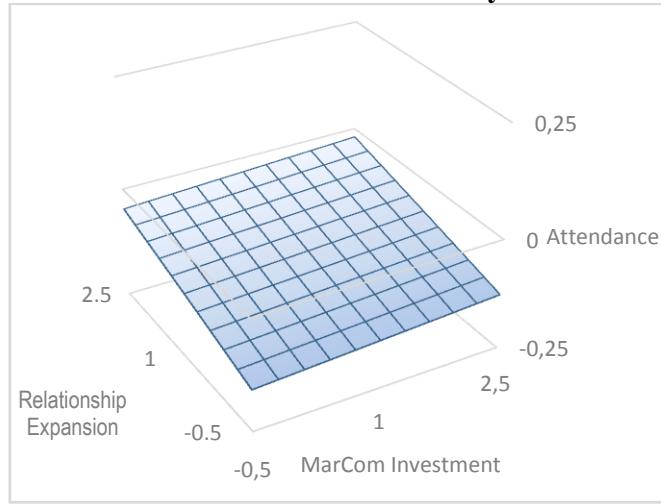


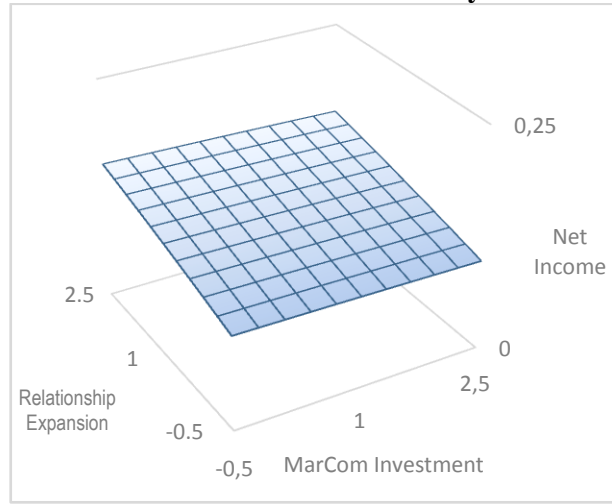
Figure 3

Assessing Advantage in the Customer Domain – Relational Expansion vs. MarCom Investment

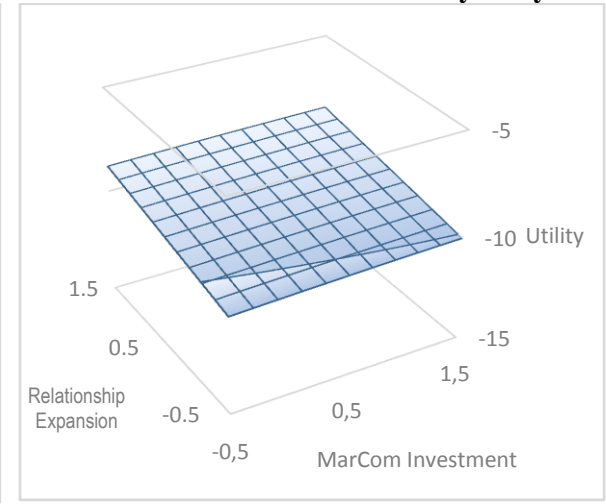
Panel A
Small Firms – Attendance Analysis



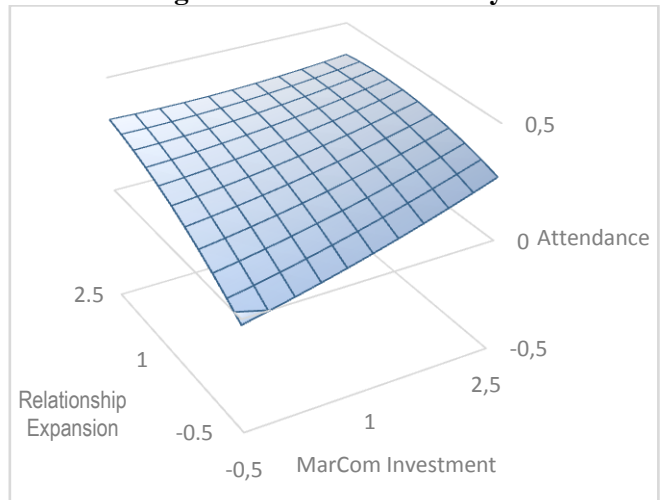
Panel B
Small Firms – Net Income Analysis



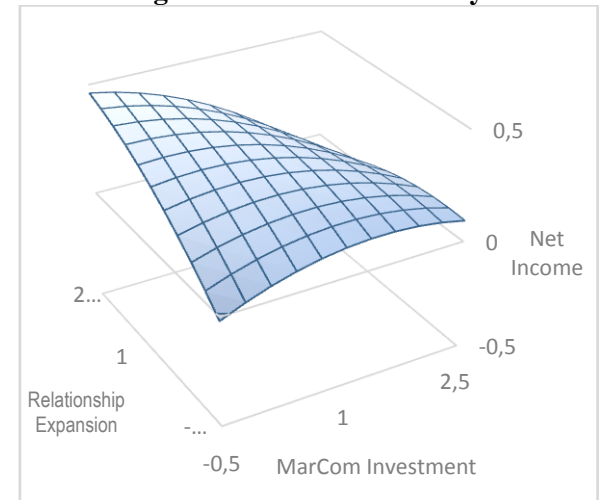
Panel D
Small Firms – Household-level Utility Analysis



Panel D
Large Firms – Attendance Analysis



Panel E
Large Firms – Net Income Analysis



Panel F
Large Firms – Household-level Utility Analysis

