A Commentary on Hunt and Arnett’s Paper

Market Segmentation Strategy, Competitive Advantage, and Public Policy:
Grounding Segmentation Strategy in Resource-Advantage Theory

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In the late 1980s and early 1990s a number of papers in the field of corporate strategy extolled the idea that firms with a comparative advantage in resources often developed a marketplace advantage (see the Barney 1991, Conner 1991, Wernerfelt 1986 references in Hunt and Arnett). This theory gained traction in the discipline of marketing because it defined “resources” in such a way that intangibles like brand equity and customer relationships could, and many marketers said should, be included in a firm’s asset portfolio. Shelby Hunt and a number of his associates have been instrumental in ‘bringing this theory across’ to marketing. The story-line they used to sell the resource-advantage (R-A) theory to marketers was to compare it with some simple notions of competition from neoclassical economics. This comparison is repeated in this paper.

Many businesspeople often refer to economics as “the dismal science” – in part because it struggles to offer practical advice about how to compete. One significant contribution of marketing, and a point of difference with economics, is the explicit recognition that for many products and services, in both B2B and B2C markets, customers are heterogeneous – in their needs, preferences, decision-making, et cetera. Hunt and Arnett use this idea of customer segments as a central tenet in their paper. As they state, few marketers would disagree that creating segments of customers has facilitated the more efficient and effective design of marketing programs. That is, segmentation is a key part of the competitive strategy of many organizations. Marketers often refer to this approach as STP Marketing – segmentation, targeting and positioning.

Hunt and Arnett’s thesis is that R-A theory “permits the success of market segmentation strategy” (p. 17). That is, R-A theory “provides the theoretical foundation for market segmentation strategy” (p. 7). My interpretation of these statements is that R-A theory is one of the parents, or grandparents of segmentation. This is an interesting idea – but one that I think traces segmentation to the wrong branch of the family tree. I would like to briefly outline the source of this confusion and its possible resolution.

Without going through the full argument advanced by Hunt and Arnett, let me focus on one of its central propositions:

“When firms have a comparative advantage (disadvantage) in resources, they will occupy marketplace positions of competitive advantage (disadvantage).” (p. 14)

Now, at first glance, this seems to be an eminently sensible idea. The better endowed a firm is, the more advantageous this is. However, it overstates the case. And it is this overstatement that leads to confusion about the lineage and thus the potential inter-dependent roles of R-A theory and market segmentation in corporate strategy.

Not all firms with a comparative advantage in resources realise a competitive advantage in the markets in which they choose to compete. It depends on how well, or poorly the firm’s assets are actually deployed. Executive managers make decisions about how, and where these resources will, or will not be used. (For example, a current clarion call in many strategic planning sessions is to “sweat the assets”.) Thus, it is both the resource base (type and configuration) and its deployment that leads to a realized competitive advantage. Consider a mining company that has exploration leases and/or untapped reserves, or a professional service firm that does not fully utilise the skills and capabilities of its employees. Both these organisations could have a (un-tapped) resource advantage but may not have a realised competitive advantage.

A contingency version of R-A theory says that the deployment of resources is just as important as their
acquisition. In this version of the theory, the question becomes “what is the role of segmentation?” My argument is that segmentation is one of the ways that organisations seek to deploy their resources. As Hunt and Arnett suggest in their paper, when customers (markets) are heterogeneous (as empirically determined), then forming customer segments and targeting the best ones with different marketing programs is the most efficient and effective way to enhance profitability. Each such program is a unique combination of the firm’s resources.

If the segmentation is done well, then the resources can be deployed to create marketing programs that will deliver a marketplace advantage.

If we re-formulate Hunt and Arnett’s version of R-A theory into a contingency model, then STP marketing is no longer a direct descendent of R-A theory. It is more like a spouse’s relative – one who can help other family members to better manage their affairs. From this perspective, segmentation becomes a very useful tool in the strategist’s toolkit, as opposed to a derivative of a currently popular approach to formulating corporate strategy. In fact, segmentation is one of the factors that makes R-A theory ‘work’.

Segmentation also plays a role in other models of strategy. For example:

- When customers are homogeneous, *economies of scale* are important to pursue; however, when they are heterogeneous, segmentation suggests that *economies of scope* and *focus* should come into play.

- Customer heterogeneity that is well analysed to produce insightful segments can be used to focus *innovation* – in new product and service development.

- In Michael Porter’s *five-forces* model of *rivalry*, segmentation allows us to fine tune our understanding of industry-based competition by ‘unpacking’ the buyers.

- When the *shared beliefs* of managers play a crucial role in formulating strategy, segmentation both suggests and helps to achieve a better customer focus.

- In a *stakeholder* model of strategy, one of the key groups is customer segments.

- In the *value-net* model of strategy, segmenting customers will offer more insight into who is a complementor and a competitor.

The point being made here is that segmentation is not subservient to any theory of corporate strategy. It is one of the few ‘big ideas’ marketing has formulated to help organisations incorporate customers into their overall strategy. And herein lies my major criticism of Hunt and Arnett’s paper – it gives segmentation the second billing, whereas I would give it first or at least equal billing.

The thesis advanced in this paper is that segmentation should guide the implementation of R-A based, and many other types of strategic thinking - if for no other reason than it is customers who have the final say about whether a strategy will succeed or fail. Hunt and Arnett may well say that their paper accommodates this thesis. However, my reading of their paper suggests that the balance of their argument is that R-A theory guides segmentation – as evidenced by the statement in the Conclusion that “the theory can be used to guide market segmentation theory and practice.” (p. 21).

**Biography**

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