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

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Abstract

Market segmentation is one of the most widely accepted concepts in marketing. Its fundamental thesis is that, to achieve competitive advantage and, thereby, superior financial performance, firms should (1) identify segments of demand, (2) target specific segments, and (3) develop specific marketing "mixes" for each targeted market segment. However, understanding the competitive circumstance in which segmentation strategy will work requires an understanding of the process of competition. That is, segmentation must be grounded in competition theory. This article examines the nature of market segmentation strategy and identifies the characteristics that a theory of competition must possess if it is to provide a theoretical foundation for it. The criteria are argued to be that a grounding theory must (1) provide for the existence of demand heterogeneity, (2) justify why firms would choose to produce and market a variety of market offerings, and (3) explicate a mechanism by which a market segmentation strategy can lead to superior financial performance. This article argues that resource-advantage theory, a process theory of competition, meets these criteria and, therefore, provides a theoretical foundation for market segmentation strategy. Furthermore, it argues that the use of market segmentation promotes public welfare by prompting the innovations that foster firm-level, industry-level, and societal-level productivity.

Keywords: Segmentation, Competitive advantages, Resource-Advantage theory

1. Introduction

All marketing strategies involve a search for competitive advantage (Bharadwaj and Varadarajan 1993; Day and Wensley 1988; Varadarajan and Cunningham 1995). For market segmentation strategy, the fundamental thesis is that the achievement of competitive advantage and, thereby, superior financial performance results from firms (1) identifying segments of demand, (2) targeting specific segments, and (3) developing specific marketing "mixes" for each targeted market segment (Dibb, Simkin, Pride, and Ferrell 1994; Hunt 2002b). Although market segmentation is accepted as a viable strategy for gaining competitive advantage, extant theories of competition in mainstream economics are inhospitable to segmentation strategy. Indeed, the dominant theories of competition in mainstream economics, that is, neoclassical perfect competition and monopolistic competition, view the competitive advantages gained from segmenting markets as detrimental to societal welfare because market segments represent the artificial fragmentation of homogeneous demand, which implies that "segmentation is viewed as an imperfection in the structure of markets" (Frank, Massy, and Wind 1972, p. 6). Therefore, neoclassical, static-equilibrium theories serve poorly those researchers and practitioners who are interested in studying and/or implementing market segmentation strategies.[1] In contrast, Hunt and Morgan (1995, 1996, 1997) have developed an interdisciplinary, process theory of competition, labeled resource-advantage theory (hereafter, R-A theory), that is claimed to be a positive theory of competition that is capable of providing a theoretical foundation for normative marketing strategies, such as relationship marketing and market segmentation (Hunt 2002b).

Why is grounding market segmentation strategy important? First, positive theories capable of grounding marketing theories increase our understanding of marketing through the explanation and prediction of marketing phenomena. In doing so, they also provide a basis for better decision models (i.e., normative theories or strategies), for "Good normative theory is based on good positive theory" (Hunt 2002b, p. 238). Therefore, a theory capable of grounding market segmentation strategy can guide both researchers and practitioners concerning the study and practice of market segmentation strategy. Second, grounding market segmentation strategy in a theory of competition contributes to the development of the macro dimensions of marketing, as Layton (2002) has so forcefully argued:

A number of marketing scholars have written on the problems faced by the individual manager, seeking to guide managers in the choices they face. However, it is the macro consequences of market related choices that also matter a great deal and which need to be addressed through social and economic policy choices, including regulation – and for this we need more than the narrow insights of the economists; we need sound macro marketing theory if the shaping of such policies is to lead on balance to benefit rather than cost for society as a whole (p. 10; italics added).

In this paper, we explore – using Black & Decker as a continuing example – whether R-A theory can provide a theoretical foundation for market segmentation strategy and, as a result, better inform the study and use of such strategies. First, our article examines the nature of market segmentation strategy and argues that, for a theory of competition to provide a theoretical foundation for such a strategy, it must (1) provide for the existence of demand heterogeneity, (2) justify why firms would choose to produce and/or market a variety of market offerings, and (3) explicate a mechanism by which a market segmentation strategy can lead to superior financial performance. Second, we provide an overview of R-A theory. Third, we illustrate that R-A theory can ground market segmentation strategy. Fourth, we show how R-A theory can inform the study and practice of market segmentation strategy. Fifth, we argue that market segmentation strategy promotes social welfare.

2. Market Segmentation Strategy

Market segmentation, in its tactical sense, often refers to such things as the use of particular statistical techniques for identifying groups of potential customers who have different needs, wants, tastes, and preferences. In contrast, market segmentation *strategy,* as used here, is a broad concept that refers to the strategic *process* that includes (1) identifying bases for segmentation, (2) using the bases to identify potential market segments, (3) developing combinations (portfolios) of segments that are strategic alternatives, (4) ascertaining the resources necessary for each strategic alternative, (5) assessing existing resources, (6) selecting an alternative that targets a particular market segment or segments, (7) securing the resources necessary for the target(s), (8) adopting positioning plans for the market offerings for the segments, and (9) developing marketing mixes appropriate for each segment.

All market segmentation strategies are premised on three basic assumptions. (1) Many markets are significantly, but not completely, heterogeneous regarding consumers' needs, wants, use requirements, tastes, and preferences, and, therefore, can be divided into smaller, meaningful, relatively homogeneous segments of consumers.[2] (2) A firm's market offerings (here, including price, promotion, and channels) can often be designed to meet the needs, wants, tastes, and preferences of such segments. And (3), for many firms, a strategy of targeting specific segments can lead to competitive advantages in the marketplace and, in turn, superior financial performance.

Consider, for example, how Black & Decker (hereafter, B&D) used a global market segmentation strategy to reverse the performance of its power tools division in the 1990s. As Table 1 shows, B&D segments users of power tools into three groups. The first segment consists of homeowners/do-it-yourselfers and is characterized by people who: (1) use power tools occasionally, (2) are price sensitive, and (3) tend to buy power tools at low price retailers (e.g., Kmart). The second segment, "weekend warriors," contains people who: (1) use power tools on a regular basis, (2) are less price sensitive, and (3) tend to buy tools at home centers (e.g., Bunnings Warehouse). The third segment, professional users, consists of people who: (1) use power tools on a daily basis, (2) are willing to pay more for their power tools, and (3) tend to buy power tools from vendors that cater to professional contractors (e.g., Bunnings Warehouse, Aussie Weld, and Spinefex).

To target each segment, B&D uses specific products lines with different brand names. For example, power tools sold under the B&D brand name are geared toward the homeowners/do-it-yourselfers, the Firestorm line of products is designed for weekend warriors, and the DeWalt line is meant for professional users. As Table 1 illustrates, B&D's strategy is not just a product strategy. Rather, it uses a complete marketing mix strategy for

Table 1:
The Market Segmentation Strategy of the Black & Decker Corporation

Market Segment	Product Line	Product Strategy	Price Strategy	Promotion Strategy	Place Strategy*
Homeowners/ Do-it-yourselfers	Black & Decker	Quality adequate for occasional use	Lower price	TV ads during holidays	Kmart, Bunnings Warehouse, Mitre 10 (lower tier stores), etc.
Weekend Warriors	Firestorm	Quality adequate for regular use	Higher priced than B&D brand	Ads in DIY magazines/ shows	Bunnings, Warehouse, etc.
Professional Users	DeWalt	Quality adequate for daily use	Highest price	Sales reps call on job sites	Bunnings Warehouse, Mitre 10 (top tier stores),etc.

* Note: Bunnings Warehouse sells to both professional contractors and the general public. Mitre 10 uses a four tier store model. The upper tier stores cater to professional contractors, while the lower tier stores do not.

Source: Based on Black & Decker (2001).

each line of power tools. Consider the Firestorm products. Targeted at weekend warriors, they are: (1) engineered to be used more often than B&D tools, but less often than DeWalt tools, (2) priced higher than the B&D products, but lower than the DeWalt products, (3) sold by retailers that cater to weekend warriors (e.g., Bunnings Warehouse), and (4) promoted in magazines and on televisions shows that target "serious" do-it-yourselfers. B&D's market segmentation strategy has allowed it to become one of the most successful producers of power tools in the world (Sternthal and Tybout 2001).

Success stories such as Back & Decker's have resulted in market segmentation strategy being a well-accepted component of marketing strategy (Dibb 1995, 2001). Indeed, market segmentation strategy is "one of the most widely held theories in strategic marketing" (Piercy and Morgan 1993 p. 123), is "considered one of the fundamental concepts of modern marketing" (Wind 1978, p. 317), is "the key strategic concept in marketing today" (Myers 1996, p. 4), and is one of the basic "building blocks" of marketing (Layton 2002, p. 11). The acceptance of market segmentation strategy as a key dimension of marketing strategy traces to Chamberlin's (1933/1962) argument that intra-industry heterogeneity of demand is natural and to Smith's (1956, p. 6) seminal article that argues: "market segmentation may be regarded as a force in the market that will not be denied."

2.1 The Nature of Market Segments

Although scholars agree that market segments can and do exist, they tend to disagree as to why they exist. Research influenced by neoclassical, static-equilibrium economics tends to view market segmentation strategy as an artificial fragmentation of the market brought about by the efforts of suppliers (e.g., Bergson 1973; Cowling and Mueller 1978; Samuelson and Nordhaus 1995; Siegfried and Tieman 1974). From this perspective, marketing efforts by firms create "market imperfections" and, therefore, should be viewed as attempts to gain monopoly power. Market segmentation is seen as a variation on the theory of price setting by monopolists and is usually discussed under the topic of price discrimination (Frank, Massy, and Wind 1972). The influence of this school of thought is evident in articles describing price discrimination as the goal of market segmentation strategies. For example, Anderson and Simester (2001, p. 316) maintain that "firms often search for distinguishing traits that they may use to price discriminate between segments." In this view, market segmentation is customarily interpreted as a mechanism that allows firms to take advantage of consumers. For example, Glass (2001, p. 549) argues that segmentation strategies allow firms to "collude to price discriminate." Glass (2001, p. 550) maintains that, since consumers differ in how much they value quality improvements, producers are able to "set prices that induce consumers types to separate" (i.e., producers' pricing strategies fracture markets into artificial segments). Neoclassical economics tends to view this type of price discrimination as detrimental to society because it results in welfare losses (Bergson 1973; Stigler 1957). For example, U.S. estimates of welfare losses due to price discrimination commonly range from .1% to 13% of GDP (Bergson 1973; Cowling and Mueller 1978; Siegfried and Tieman 1974). Therefore, according to this view, society should discourage firms from using market segmentation strategies because it fosters price discrimination.

In contrast, other researchers, including most *marketing* researchers, maintain that heterogeneity of demand is natural (e.g., Alderson 1957, 1965; Allenby, Arora, and Ginter 1998; Chamberlin 1933/1962; McCarthy 1960; Smith 1956). As Allenby, Arora, and Ginter (1998, p. 384) point out, "demand heterogeneity is a critical element of marketing." Smith's (1956, p. 4) seminal article argued that a "lack of homogeneity on the demand side may be based upon different customs, desire for variety, or desire for exclusivity or may arise from basic differences in user needs." He suggested that it is attributable to consumers' desires for more precise satisfaction of their varying wants. As Sawhney (1998, p. 54) emphasizes, "Customers are becoming very sophisticated and are demanding customized products and services to match individual preferences and tastes." Similarly, Lancaster (1990) maintains that the existence of product variety can be a result of consumers seeking variety in their own consumption and/or different consumers wanting different variants because tastes differ. From this perspective, firms using market segmentation strategies are actually benefiting consumers and society by providing them with market offerings that better satisfy individual wants and needs. Consequently, firms wishing to provide superior value to consumers should try to develop market offerings that are well suited to specific market segments. Furthermore, society should encourage firms to use market segmentation strategies.

2.2 Implications for Marketing Strategy and Public Policy

The debate over the nature of market segments (i.e., whether they are natural or artificial) has significant implications for marketing strategy and public policy. If market segments are artificial, as neoclassical economic theory maintains, then firms in the same industry should all produce exactly the same market offerings because demand homogeneity requires supply homogeneity. If firms produce market offerings that satisfy homogeneous industry demand, then the market offerings produced will be fundamentally uniform, and any perceived differences among them would be purely fictitious creations of firms or be the result of either consumer ignorance or irrational consumer preferences (Chamberlin 1950). Consistent with this view, Galbraith (1967) argues that marketing efforts by firms (e.g., advertising) distort consumer demand. Furthermore, the product differentiation that results from distorting consumer demand (i.e., the artificial segmentation of markets) leads to welfare losses in the form of higher prices, lower quantities, excess capacity, inferior products, and the exploitation of the factors of production (Chamberlin 1933/1962; Stigler 1957). [3]As a result, this view argues that to protect the public's welfare, firms should be discouraged (or, if necessary, prevented) from practicing market segmentation strategies.

In contrast, if intra-industry demand is heterogeneous, "differences in tastes, desires, incomes, and locations of buyers, and differences in the uses which they wish to make of commodities all indicate the need for variety" (Chamberlin 1933/1962, p. 214). As Chamberlin's (1950) later work suggests, such differences are natural because human beings are individuals. Following this line of reasoning, firms in the same industry are capable of producing products that have *meaningful* differences. As Frank, Massy, and Wind (1972) argue, because of improved production techniques and methods of handling information, product diversity exists that is based on meaningful differences. This argument is consistent with the view that market offerings should be considered bundles of characteristics, and that consumers attempt to choose products that are closest to their "ideal" set of characteristics (Lancaster 1990, 1991).

Returning to the B&D example, though the main utilitarian function of a power drill is to bore holes in objects, power drills differ on many dimensions, such as reliability, price, torque, and power source (i.e., an electric cord or a battery). Because consumers desire different bundles of characteristics, different power drills, with different bundles, are produced. Consumers search for power drills that come closest to matching their desired sets of characteristics (i.e., sets that contain the desired characteristics in the desired proportions). For example, people who plan on using a power drill only occasionally require different characteristics than do professional users. For occasional users, price might be the most important characteristic, while torque is of less importance. For that reason, they may choose to buy a B&D brand power drill (see Table 1). On the other hand, because professional users may consider torque to be most important, with price less so, they may choose a DeWalt power drill (see Table 1). Therefore, market offerings may differ because (1) consumers seek variety and/or (2) satisfying the differing needs, wants, and use requirements of consumers requires offerings that have different bundles of characteristics. [4]Therefore, marketplace characteristics suggest that firms should try to develop multiple market offerings (e.g., different models of power drills) for a single "market" (e.g., the "power drill market"), with each targeted toward a different set of consumers, if the market offerings do indeed represent different bundles of attributes that are desired by consumers.

Which view is more accurate? Are most markets significantly homogeneous and, therefore, most segments are *artificial?* Or, are most markets substantially heterogeneous and, therefore, most segments are *natural?* For neoclassical economics, all market offerings (e.g., power drills, automobiles) can be considered commodities that can be modeled by means

Table 2:
The Foundational Premises of R-A Theory

P_1: Demand is heterogeneous across industries, heterogeneous within industries, and dynamic.

P_2: Consumer information is imperfect and costly.

P_3: Human motivation is constrained self-interest seeking.

P_4: The firm's objective is superior financial performance.

P_5: The firm's information is imperfect and costly.

P_6: The firm's resources are financial, physical, legal, human, organizational, informational, and relational.

P_7: Resource characteristics are heterogeneous and imperfectly mobile.

P_8: The role of management is to recognize, understand, create, select, implement, and modify strategies.

P_9: Competitive dynamics are disequilibrium-provoking, with innovation endogenous.

Caveat: The foundational propositions of R-A theory are to be interpreted as descriptively realistic of the general case. Specifically, P_1, P_2, P_5 and P_7 for R-A theory are *not* viewed as idealized states that anchor end-points of continua.

Source: Hunt and Morgan (1997).

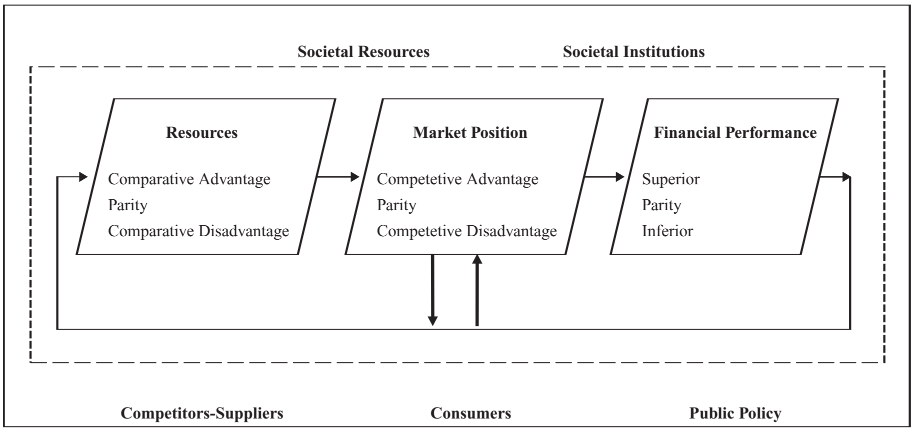

Figure 1: A Schematic of Resource-Advantage Competition

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 positon, which, in turn signals relative resources.

Source: Adapted from Hunt and Morgan (1997).

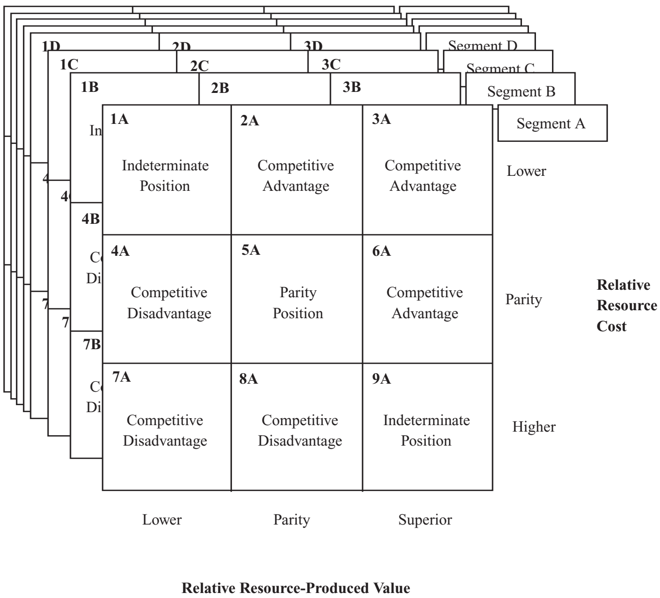

Figure 2: Competitive Position Matrix

Read: The marketplace positon of competitive advantage identified as Cell 3A, for example, in segment A results form 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).

of "industry" demand and supply curves that yield an equilibrium price. This view traces to the classic work of Joan Robinson (1933). She defines a "commodity" as a "consumable good, *arbitrarily* demarcated from other kinds of goods, but which may be regarded for practical purposes as homogeneous within itself" (Robinson 1933, p. 17; italics added). Therefore, she argues that the tastes, preferences, and use requirements of consumers of automobiles may be regarded "for practical purposes" as homogeneous. However, this view is in stark contrast to empirical evidence that suggests that the demand in most markets is substantially heterogeneous (Blattberg and Sen 1976; Kamakura and Russell 1989). Indeed, as Allenby, Arora, and Ginter (1998) maintain, heterogeneity of demand may be even *more* prevalent than most research suggests. Therefore, the view that demand in most industries is homogeneous (or "close enough" to being homogeneous) is descriptively inaccurate. To ignore that consumers differ substantially in their wants and needs in such markets as power tools or automobiles, invites strategic failures. In the "automobile industry," for example, Ford Motor Company is involved in the manufacturing and marketing of over 40 distinctly different market offerings (using seven different brand names). Similarly, as our continuing example shows, B&D offers a wide variety of power tools that are designed specifically to meet the needs of different market segments. Strategically, therefore, firms in the "automobile industry" or "power tool industry" should not try to develop market offerings that are designed to meet simultaneously the needs of *all* potential consumers. Rather, a market segmentation strategy seems required, and society should *encourage* firms in such industries to use segmentation approaches.

2.3 Market Segmentation and Firm Performance

When is a particular segmentation strategy likely to succeed? For a firm, a market segmentation strategy makes sense only if it impacts positively its financial performance. The nine-step process outlined earlier of designing and implementing market segmentation strategies is complex. As a result, successful market segmentation strategies often require substantial amounts of resources. Therefore, particular segmentation strategies will be successful only when the benefits of engaging in such strategies outweigh the costs. As Weinstein (1994, p. 2; italics added) maintains, "The objective of segmentation research is to analyze markets, find niche opportunities, and capitalize on a superior competitive position." From an efficiency standpoint, successful segmentation strategies lead to better planning and more effective use of firm resources because they allow firms to focus their resources on segments of consumers that are more likely to purchase their market offerings (Mahajan and Jain 1978; Rangan, Moriarty, and Swartz 1992). The continued use of market segmentation strategies by firms suggests that firms believe that such strategies are profitable. Therefore, not only will market offerings differ (i.e., contain different bundles of attributes) because of differences in consumer demand, market offerings will also differ because firms can increase profits by manufacturing a variety of market offerings tailored for specific market segments. Therefore, because segmentation strategies allow some firms to compete more efficiently and/or effectively, they are viable strategic options for firms.

The preceding discussion implies that providing a theoretical foundation for market segmentation strategy requires a theory of competition that permits a market segmentation strategy to be successful and contributes to explaining when and why such a strategy will be successful. Specifically, a grounding theory must (1) provide for the existence of demand heterogeneity, (2) justify why firms would choose to produce and market a variety of market offerings, and (3) explicate a mechanism by which a market segmentation strategy can lead to superior financial performance. We argue that resource-advantage (R-A) theory possesses these characteristics.

3. An Overview of R-A Theory

R-A theory is a general theory of competition that describes the process of competition. As a result, exploring its implications does not involve solving sets of equations, as in neoclassical economics (Hunt and Arnett 2001). As Burt (1992, pp. 5-6) emphasizes:

Competition is a process not a result. With important exceptions, most theories of competition concern what is left when competition is over. They are an aside in efforts to answer the practical question of how to maximize producer profit. The alternative is to start with the process of competition and work toward its results. This is a less elegant route for theory, but one that veers closer to the reality of competition as we experience it.

Therefore, explications of R-A theory use a descriptive approach that "veers closer to realty."

R-A theory has been developed and applied in a variety of disciplines, including marketing (Hunt 1997a, 1999, 2000b, c, 2001a, 2002b; Hunt and Arnett 2001, 2003; Hunt Lambe, and Wittmann 2002; Hunt and Morgan 1995, 1996, 1997), management (Hunt 1995, 2000a, d; Hunt and Lambe 2000), economics (Hunt 1997b, c, d, 2002a), ethics (Arnett and Hunt 2002), and general business (Hunt 1998; Hunt and Duhan 2001; O'Keeffe, Mavondo, and Schroder 1998). Figures 1 and 2 provide a schematic depiction of R-A theory's key constructs, and Table 2 provides its foundational premises. Our overview follows closely the theory's treatment in Hunt (2000b).

3.1 The Structure of R-A Theory

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 units of selection that are (1) relatively durable, that is, that can exist, at least potentially, through long periods of time, and (2) heritable, that is, that can be transmitted to successors. For R-A theory, both firms and resources are proposed as the heritable, durable units of selection, with competition for comparative advantages in resources constituting the selection process.

At its core, R-A theory combines heterogeneous demand theory (Alderson 1957, 1965; Chamberlin 1933/1962) with the resource-based theory of the firm. The resource-based theory of the firm, which traces to Penrose (1959), Wernerfelt (1984), Conner (1991), and Barney (1991), parallels, if not undergirds, what Foss (1993) calls the "competence perspective" in evolutionary economics and the "capabilities" approaches of Teece and Pisano (1994) and Langlois and Robertson (1995). Priem and Butler (2001a, p. 35) suggest that in order for the resource-based view "to fulfill its potential in strategic management, its ideas must be integrated with an environmental demand model." They point out that R-A theory's incorporation of heterogeneous demand theory is a step in the right direction. We agree.

Contrasted with perfect competition, heterogeneous demand theory views intraindustry demand as significantly heterogeneous with respect to consumers' tastes and preferences. Therefore, viewing products as bundles of Lancasterian (1966) attributes, different market offerings or "bundles" are required for different market segments within the same industry. Contrasted with the view that the firm is a production function that combines homogeneous, perfectly mobile factors of production, the resource-based view holds that the firm is a combiner of heterogeneous, imperfectly mobile factors, which 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. As diagramed in Figures 1 and 2, R-A theory stresses the importance of (1) market segments, (2) heterogeneous firm resources, (3) a comparative advantage/disadvantage in resources, and (4) marketplace positions of competitive advantage/disadvantage.

In brief, market segments are defined as intra-industry groups of consumers whose 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 marketing segment(s). Thus, resources can be categorized as financial (e.g., cash resources and access to financial markets), physical (e.g., plants and equipment), legal (e.g., trademarks and licenses), human (e.g., the skills and knowledge of individual employees), organizational (e.g., competences, controls, policies, and 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 a set of resources that is in some ways unique (e.g., knowledgeable employees, efficient production processes…) that could potentially result in a competitive advantage in the marketplace. Just as international trade theory recognizes that nations have heterogeneous, immobile resources, and it focuses on the importance of a comparative advantage 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, as shown in Figures 1 and 2, when firms have a comparative advantage (disadvantage) in resources, they will occupy marketplace positions of competitive advantage (disadvantage). Marketplace positions of competitive advantage (disadvantage) then result in superior (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 Figure 1 shows, how well competitive processes work 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 behavior of consumers, and public policy decisions.

Consistent with its Schumpeterian heritage (Schumpeter 1950), R-A theory places great emphasis on 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 contribute to the dynamism of R-A competition.

As the feedback loops in Figure 1 show, firms learn through competition as a result of the feedback from their relative financial performance signaling relative market 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 (see Figure 2), they attempt to neutralize and/or leapfrog the advantage firm(s) by acquisition and/or innovation. That is, they attempt to acquire the same resource as the advantage 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 efficiency, or relative value, or both.

Firms occupying positions of competitive advantage can continue to do so if (1) they continue to 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 advantage firm's resources are either protected by such societal institutions as patents or the advantage-producing resources are causally ambiguous, socially 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 has a competitive advantage in some market segment(s), competitors attempt to neutralize and/or leapfrog the advantaged firm through acquisition, imitation, substitution, or major innovation. Barney (2001) agrees with Priem and Butler (2001a) that a dynamic analysis using the resource-based view of the firm is important for the further development of strategic business research. Specifically, Barney (2001) cites R-A theory as an example of an evolutionary approach that incorporates the necessary dynamics. 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 nonconsummatory: 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.

4. R-A Theory and Market Segmentation Strategy

As discussed, the fundamental strategic thesis of market segmentation is that, to achieve competitive advantage and superior financial performance, firms should (1) identify segments of industry demand, (2) target specific segments of demand, and (3) develop specific marketing "mixes" for each targeted market segment. To theoretically ground market segmentation strategy, a positive theory of competition must meet three criteria. The theory must: (1) allow for the existence of demand heterogeneity, (2) justify why firms would choose to produce and market a variety of market offerings, and (3) explicate a mechanism by which market segmentation can lead to superior performance.

Addressing criterion one, consider P1 in Table 2: demand is heterogeneous across industries, heterogeneous within industries, and dynamic. "Heterogeneous within industries" implies that demand in the overwhelming majority of industries is *substantially* heterogeneous (Hunt 2002b). Hence, assuming the demand for most market offerings in most industries to be homogenous is descriptively inaccurate. While demand in a limited number of industries, for example, corn (ANZSCC #012.02.76), gold ore (#142.14.12), and industrial sand (#153.11.01), is somewhat homogeneous; the majority of industries are more similar to the "power tool industry" (ANZSCC #442.22), or the "motor vehicle industry" (#

491.03.01), or the "book publishing industry" (#322.01.02), where demand is characterized by a vast array of consumer tastes, preferences, and use requirements. As a result, companies in these industries tend to (and *should*) follow segmentation strategies.

Addressing criterion two, R-A theory's acceptance that intra-industry demand is substantially heterogeneous in most industries implies that a firm is confronted with major challenges: "how many market offerings, composed of which attributes, at what attribute levels, targeted at which market segments should it produce?" (Hunt 2000b, p. 54). R-A theory suggests that firms will deal with these challenges in different ways because each firm possesses a set of resources that is in some ways unique. Some firms' resources sets may be more consistent with a strategy of offering limited numbers of market offerings, and, therefore, they will choose to focus on a single market segment (or a few market segments) by producing fairly homogeneous market offerings. For example, AM General Corporation, which manufacturers the Humvee, chooses to focus on marketing its vehicle to a single market segment (i.e., governments for military purposes). Rather than adapt its market offering to other segments, AM General chooses to license the look of their Humvee vehicle (i.e., the grill configuration) and the name "Hummer" to General Motors. In contrast, because General Motors produces a number of different vehicles designed to meet the needs of a wide variety of market segments, the addition of the Hummer line allows it to focus on a fairly new market segment (i.e., consumers desiring luxury, all terrain vehicles). Thus, AM General and General Motors follow different marketing strategies because each believes that its resource set is better suited for its particular strategy. Therefore, R-A theory's treatment of firm resources provides an explanation for why some firms choose to produce and market numerous different market offerings, while others do not.

Addressing criterion three, consider the concept of market offering. For R-A theory, a market offering is a distinct entity that is (1) comprised of a bundle of attributes, which (2) may be tangible or intangible, objective or subjective, and that (3) may be viewed by some potential buyer(s) as a want satisfier (Hunt 2000b). Most market offerings have blends of tangible (e.g., a power drill's motor and casing) and intangible attributes (e.g., a power drill's warranty and reliability). If tangible attributes predominate, market offerings are referred to as goods; if intangibles predominate, they are services. Attributes are considered to be relatively more objective or subjective depending on the degree of uniformity across buyers as to (1) the importance weights given to different attributes, (2) the extent to which different market offerings have or do not have different attributes, and (3) the extent to which different offerings have different levels of attributes. In all cases, consumer perceptions – that is, subjective factors – are dispositive. The result is that market offerings *perceived* by consumers to be closer to their ideal constellation of attributes are, indeed, more valuable.

Now consider the nature of R-A competition. For R-A theory, as shown in Figures 1 and 2, competition consists of the constant struggle among firms for comparative advantages in resources that will yield marketplace positions of competitive advantage for some market segment(s) and, thereby, superior financial performance. Therefore, R-A theory views the basic unit of competition as market *segments*. Firms compete with each other on a segment-by-segment basis rather than on an industrywide basis. Market segmentation provides a mechanism by which firms can more effectively and/or efficiently use their resources (Mahajan and Jain 1978; Rangan, Moriarty, and Swartz. 1992). As Piercy and Morgan (1993, p. 124) maintain, "the logic of market segmentation suggests that designing marketing strategies around target segments allows a closer alignment between customer needs and the organization's marketplace offering, leading to increased customer satisfaction and loyalty and to building a stronger and more durable competitive position." R-A theory maintains that firms that are successful in developing market offerings that provide more value to consumers in specific market segments and/or provide market offerings at a lower cost (relative to their competitors) will occupy marketplace positions of competitive advantage. In turn, positions of competitive advantage lead to superior financial performance.

Consider the competitive matrix for segment A in Figure 2. A firm will have a marketplace advantage in this segment, if it can produce: (1) a market offering perceived as having superior value compared to rivals' marketing offerings at a lower cost than rivals (cell 3A), (2) a market offering perceived as having superior value compared to rivals' marketing offerings at the same cost as rivals (cell 6A), or (3) a market offering perceived as having value equal to rivals' marketing offerings at a lower cost than rivals (cell 2A). These positions of competitive advantage (cell 3A, cell 6A, and cell 2A) lead to superior financial performance. In contrast, firms that fail to develop market offerings that have value for some market segment and/or do not have resource costs that are below those of rivals will occupy marketplace positions of competitive disadvantage. Specifically, a firm will have a disadvantage in a given segment, if it produces (1) a market offering perceived as having lower value compared to rivals' market offerings at the same cost as rivals (cell 4A), a market offering perceived as having lower value compared to rivals' market offerings at a higher cost than rivals (cell 7A), or a market offering perceived as having value equal to rivals' marketing offerings at a higher cost than rivals (cell 8A). Positions of competitive disadvantage lead to inferior financial performance.

Two additional competitive positions are possible. Firms can produce: (1) a market offering perceived as having lower value compared to rivals' market offerings at a lower cost than rivals (cell 1A) or (2) a market offering perceived as having superior value compared to rivals' market offerings at a higher cost than rivals (cell 9A). In these two marketplace positions, a firm's financial performance is dependant upon the ratio of resource-produced value (rpv) to resource costs (rc) of its market offering compared to those of rivals. Firms with market offerings that have greater ratios (compared to rivals) will have superior financial performance. In contrast, firms with market offerings that have smaller ratios (compared to rivals) will have inferior financial performance. Therefore, R-A theory shows how market segmentation strategies impact firm performance.

In summary, R-A theory permits the success of market segmentation strategy. (1) The theory's foundational premises view intra-industry demand as inherently heterogeneous. (2) The theory, by means of its treatment of resources, accounts for the behaviors of firms that often choose to produce and market a variety of market offerings in the same industry. (3) The theory, by means of the marketplace position matrix, explicates the mechanism by which a market segment strategy can lead to superior financial performance.

5. The Study and Practice of Market Segmentation

To be useful for researchers and practitioners, R-A theory must provide guidance as to when a market segmentation strategy will be successful. Our discussion concerning R-A theory's ability to provide a theoretical foundation for market segmentation strategy suggests that a market segmentation strategy will be more successful (or more likely to be successful) when (1) intra-industry demand is substantially heterogeneous, (2) the target segment demand is relatively large (or has a large growth potential), (3) a firm's market offering is well-tailored to a target segment's tastes and preferences, (4) competitors' offerings are not well-tailored to each segment, and (5) given that a firm's market offerings are viewed as equal to or better than rivals' market offerings, the firm's resource costs (relative to competitors) do not push the firm into cells 8A or 9A in Figure 2.

Regarding point one, recall that a market segmentation strategy assumes that, though a market is substantially heterogeneous regarding consumers' needs, wants, tastes, and use requirements, it can be divided into smaller, meaningful, homogeneous segments of consumers. In markets that are inherently homogenous, segmentation strategies are ill-advised. That is, segmenting markets in which consumers' needs, wants, tastes, and preferences differ very little would constitute an inefficient use of firm resources. Furthermore, in this situation a segmentation strategy can make a firm more vulnerable to the actions of competitors. For example, if firm A chooses to concentrate on just a subset of the consumers in an inherently homogeneous market, other firms (firm B, firm C, etc.) could enter the market and benefit from economies of scale by choosing to focus on the market as a whole. The cost savings could allow firm B, for example, to produce a market offering at a lower cost than firm A, which could, in turn (if the market offering was perceived by consumers as being at least as valuable as firm A's market offering), allow it to occupy a position of competitive advantage (cell 2A or cell 3A in Figure 2). At best, firm A could occupy an indeterminate position, in the marketplace (cell 9A in Figure 2), where financial performance is less certain. However, this would only be possible if consumers perceived firm A's market offerings to be more valuable than firm B's market offering. Therefore, it is ill-advised to engage in a segmentation strategy (i.e., focus on a subset of consumers), if, regardless of the segmentation strategy used, no distinct segments exist.

In contrast, markets that are substantially heterogeneous (e.g., the market for power tools, as in the B&D example) do not lend themselves to a "one product fits all" strategy. Although firms can choose to produce a single market offering targeted to a specific market segment (i.e., a niche strategy), it is unlikely that a "general purpose" market offering could be close enough to all the constellations of attributes desired by consumers in a market that is substantially heterogeneous. For example, if B&D decided to market a *single* "general purpose" power drill to all potential buyers of power tools, success would require it to develop a power drill that appealed to (i.e., matched closely the constellation of attributes of) all consumers concomitantly, including price sensitive consumers, those needing increased performance, and those desiring durability. It is extremely unlikely that B&D would be able to compete effectively against rivals by targeting a single market offering to all power tool users. That is, no single power drill can be expected to be close enough to the many constellations of attributes desired by all consumers of power tools concomitantly. As a result, a firm that chooses to follow such a strategy would be vulnerable to rival firms that produce market offerings tailored to specific market segments. Therefore, markets that are characterized by large degrees of heterogeneity regarding consumers' wants and needs provide strategic opportunities for firms that use segmentation strategies. Indeed, in many industries (e.g., power tools and automobiles), segmentation strategies are essential to organizational success.

Regarding point two, to be profitable, a segment must be, at least, potentially capable of providing a firm with enough revenue to cover the costs of producing market offerings tailored specifically for the segment. As Wind (1978, p. 328) emphasizes, "the selection of a segmentation design cannot be done in isolation from cost considerations." Research suggests that size and expected growth rate of demand are two important characteristics that make segments more attractive (Abratt 1993; Dibb 1995; Hlavacek and Reddy 1986). For example, Frank, Massy, and Wind (1972) maintain that to provide a reasonable target market for firms, the size of a market segment must be "substantial" (i.e., large enough to cover the incremental, absolute costs that firms face when developing and producing market offerings designed for specific segments). Therefore, a market segmentation strategy cannot succeed, even if a firm's relative costs for a market offering would potentially allow it to occupy a marketplace position of competitive advantage, when the size of the market segment is not adequate to generate sufficient revenue to cover the absolute costs of such a strategy.

Regarding points three and four, marketplace positions are partially the result of how consumers perceive the value of existing market offerings. Firms that provide market offerings that are better tailored to the wants/needs of a particular market segment(s) have an advantage over rivals. As can be seen in Figure 2, when consumers perceive that a firm's market offerings are more valuable than rivals' market offerings, they are often able to occupy marketplace positions of competitive advantage (cell 3A and cell 6A in Figure 2). In contrast, when consumers perceive that a firm's market offerings provide less value than competitors' market offerings, they often find themselves in marketplace positions of competitive disadvantage (cell 4A and cell 7A in Figure 2). Therefore, when deciding whether to adopt a *particular* market segmentation strategy, firms should consider carefully the marketplace positions (or potential marketplace positions) of competitors. As Hlavacek and Reddy (1986, p. 18; italics in original) maintain, "it is imperative that a producer be able to determine whether his offering has a *demonstrable competitive advantage* in a defined market segment." Note, however, this concept is different from the idea of looking at the level of competition (Frank, Massy, and Wind 1972; Piercy and Morgan 1993). A market segment that is characterized by a high level of competition may still represent a viable new market for a firm that has the potential to provide more value to consumers and/or has a cost advantage over existing firms (i.e., firms that have the potential to occupy either cell 2A or cell 3A or cell 6A in Figure 2). As Rangan, Moriarty, and Swartz (1992) find, even in mature markets characterized by intense competition, market segmentation strategies are often still viable.

With regard to point five, for example, consider firms X and Y, both competing in the same industry, which is characterized by at least three market segments (segments A, B, and C in Figure 2). Firm X chooses not to follow a market segmentation strategy and, therefore, produces a single "general purpose" market offering. In contrast, Firm Y chooses a market segmentation strategy and decides to produce three different market offerings, each one tailored closely to a different segment. As a result, firm Y's market offerings are perceived by members of each segment as being more valuable than the "general purpose" market offering sold by firm X. If firm Y is able to maintain overall costs at a level comparable to those of firm X, it will occupy cells 6A, 6B, and 6C in Figure 2. In comparison, firm X will occupy cells 4A, 4B, and 4C. In this situation, R-A theory predicts that, due to its more favorable marketplace position, firm Y will be rewarded with superior financial performance. Conversely, firm X will experience inferior financial performance (see Figure 1).

Given other circumstances, the results could be much different. For example, suppose firm X's resource costs are substantially lower than those of Y (because, for example, of the production efficiencies in producing only one standard offering) and firm X's offering is viewed by segments A and B as "good enough" and by segment C as "not nearly good enough." Under these circumstances, firm X would occupy cells 2A, 2B, and 1C, respectively, for the three segments, and Y would occupy cells 8A, 8B, and 9C, respectively. Therefore, firm X would occupy positions of competitive advantage in segments A and B, while Y would occupy positions of competitive disadvantage in the two segments. Concerning segment C, given the information that we have concerning the two firms costs and consumers' perceptions, firm Y might have an advantage over X because of its higher ratio. That is, since firm X's market offering is viewed as having little value ("not nearly good enough") its ratio of resource-produced value to resource costs is close to zero (i.e., as rpv $\rightarrow$ 0, rpv/rc $\rightarrow$ 0). In comparison, firm Y's ratio would be larger than firm X's because consumers perceive its market offering to be superior to the one offered by firm X (i.e., > 0, because firm Y's rpv > firm X's rpv). Therefore, firm Y would have a competitive advantage in segment C.

R-A theory suggests that, to be successful, firms must examine the nature of competition in the segments that they target (or are considering targeting). Because firms can occupy different competitive positions in each of the segments in which they compete, firms must understand how their market offerings compare to those of their rivals on a *segment-by-segment* basis. Two important factors determine a firm's marketplace position: (1) consumers' perceptions regarding the value of market offerings compared to those of rivals and (2) the cost (relative to competitors) of the resources used to produce the market offerings. Firms will have competitive advantages over rivals when they produce more valuable market offerings and/or produce market offerings more efficiently than rivals.

5.1 Resource Set and Market Segmentation Strategy Fit

Research suggests that the fit between a firm and its strategy is one of the key factors influencing successful strategy implementation (McKee, Varadarajan, and Pride 1989; Vorhies and Morgan 2003). That is, firms whose resource sets match more closely those required by a specific segmentation strategy are more likely to be successful. Therefore, to be successful firms must (1) understand what resources are available to them and (2) recognize whether these resources are appropriate for the segmentation strategy that the firm desires to implement. However, because each firm possesses a set of resources that is in some ways unique, the task of identifying a firm's resources set and its appropriateness for a particular segmentation strategy is complex (Walker and Ruekert 1987).

Vorhies and Morgan (2003) suggest a method by which firms can measure the configuration of their organizations. For them (p. 1), an organization's configuration is "the multidimensional constellation of the strategic and organizational characteristics of a business." They recommend that marketing managers use a profile deviation approach for determining which configurations are best suited for particular market strategies. That is, managers should compare their firms' configuration to that of an "ideal" configuration. Firms that differ significantly from the "ideal" configuration for a particular segmentation strategy are likely to experience implementation problems, and those that match closely the "ideal" configuration will likely enjoy superior performance (i.e., increased effectiveness and/or efficiency). What are the important strategic and organizational characteristics of a business? R-A theory suggests that it is firm *resources* that constitute the important characteristics that result in marketplace positions of competitive advantage and, thereby, enable firms to experience superior financial performance. Therefore, firms should engage in resource analyses prior to strategy selection.

A resource analysis should proceed in three steps. First, an ideal configuration of resources should be identified. As Vorhies and Morgan (2003) suggest, this can be accomplished by either examining extant theory or by identifying firms that have successfully implemented a particular segmentation strategy and studying their resource sets (i.e., by benchmarking successful firms). For example, firms that manufacturer power tools could decide to implement a strategy similar to B&D's. Because of B&D's success, they could decide to use B&D as a basis for the ideal configuration. The resource categorization schema outlined by R-A theory can serve as an important organizational tool. Recall that R-A theory divides resources into seven basic categories: financial, physical, legal, human, organizational, informational, and relational. In addition, the theory suggests that firms are capable of combining these resources into complex, higher order resources. These categories provide marketing managers with a conceptual framework that can be used to identify important resources.

Second, the firm should perform a resource analysis on itself to identify its resource configuration. Using R-A theory's resource categorization schema as a guide, the firm should identify its (presently) available resources. However, not all of a firm's resources will be important elements in the strategy implementation process. Therefore, firm resources should only be included in the analysis if they aid in the implementation of the desired segmentation strategy. For example, one key resource that was available to B&D prior to implementing its current segmentation strategy for power tools was the DeWalt brand name. (The DeWalt name had been a well-respected name among professionals who used power tools prior to its use in B&D's segmentation strategy.) Therefore, the brand equity in "DeWalt" implied that any resource analysis pertaining to B&D's segmentation strategy for power tools should include the highly valued DeWalt brand name. However, the DeWalt brand would not be included as a resource when it comes to implementing a segmentation strategy for home appliances. (The B&D name is used for home appliances.) Therefore, resource analyses will most likely include only a subset of a firm's resources because not all firm resources aid in the implementation of a given segmentation strategy.

Third, the firm should compare its resource configuration to the "ideal" resource configuration. Differences would indicate areas that the firm needs to address prior to implementing the strategy. For example, a power tool manufacturer desiring to implement a segmentation strategy similar to B&D's strategy may find that they do not have access to a strong brand name that can be used in the professional power tool segment. If management perceives that its configuration differs significantly from the "ideal" configuration, they may choose to (1) not implement the segmentation strategy, (2) acquire the needed resources (e.g., B&D purchased the DeWalt brand in the 1960s), or (3) devise a way to gain access to the desired resource (e.g., a firm could license a brand name for use with its products—B&D licenses its brand name to Applica Consumer Products, Inc. Applica uses the B&D brand name on its line of small appliances such as blenders and toasters.). Therefore, managers are able to make better-informed decisions by using a profile deviation approach based on R-A theory.

6. Market Segmentation, Social Welfare, and R-A Theory

Returning to the macromarketing issues raised by Layton (2002), recall the concerns of some researchers regarding the effects of the "artificial" fragmenting of markets. They argue that market segmentation strategies distort consumer demand and lead to welfare losses in the form of higher prices, lower quantities, excess capacity, inferior products, and the exploitation of the factors of production. As discussed, common estimates by neoclassical economists as to the welfare losses related to segmentation strategies range from .1% to 13% of U.S. GDP. Given that most markets are substantially heterogeneous, and, therefore, market segmentation strategies do not artificially fracture the market, what are the implications for society? Are, despite the fact that market segments are naturally occurring phenomena, market segmentation strategies still harmful to the welfare of society?

Because society benefits from wealth creation, productivity (i.e., efficiency and effectiveness), and economic growth, we argue that market segmentation strategies have a positive impact on the welfare of society. Recall that, for R-A theory, (1) firms compete on a segment-by-segment basis, (2) competition is a process characterized by firms striving constantly to find/develop resources that allow them to occupy marketplace positions of competitive advantage because such positions lead to superior financial performance, and (3) firms that learn, from marketplace signals, that they occupy marketplace positions of competitive disadvantage attempt to neutralize and/or leapfrog the advantage firm(s) by acquisition and/or innovation. Therefore, if allowed by a society's institutions to flourish, R-A competition "prompts the proactive and reactive innovations that create the new tangible, intangible, and higher order resources that ultimately result in productivity and economic growth" (Hunt and Arnett 2002, p. 23). That is, segment-by-segment competition leads to increases in productivity and economic growth, and market segmentation strategies often result in market offerings that better satisfy consumers' wants/needs, such strategies have a positive effect on public welfare. The concerns of neoclassical economics about segmentation strategies are unfounded. Such strategies should be promoted by public policy.

7. Conclusion

Although market segmentation strategy is a well-accepted component of marketing strategy and a fundamental concept of modern marketing, extant theories of competition in neoclassical economics do not provide theoretical foundations for it. Indeed, theories of competition from mainstream economics view market segmentation as detrimental to societal welfare. Therefore, neoclassical theories of competition cannot guide researchers and practitioners who are interested in studying and/or implementing market segmentation strategies. However, R-A theory can provide a theoretical foundation for market segmentation strategy because it (1) provides for the existence of demand heterogeneity, (2) justifies why firms often choose to produce and market a variety of market offerings in the same industry, and (3) explicates a mechanism by which market segmentation can lead to superior financial performance.

Specifically, R-A theory recognizes that, because demand is substantially heterogeneous within most industries, firms are able to engage in segmentation strategies. Furthermore, R-A theory maintains that, because consumers look for market offerings that match closely the constellations of attributes they desire, it often makes sense for firms to develop different market offerings, with each tailored to match closely the constellations of attributes desired by a given segment of consumers. Finally, R-A theory shows how market segmentation strategies can lead to superior financial performance. That is, firms will be rewarded with superior financial performance` when they are able to develop market offerings that match (more closely than rivals) the needs of a specific market segment and, therefore, they occupy a marketplace position of competitive advantage.

Because R-A theory provides a theoretical foundation for market segmentation strategy, the theory can be used to guide market segmentation theory and practice. R-A theory suggests that market segmentation strategies will be more successful when: (1) intra-industry demand is substantially heterogeneous, (2) the target segment demand is relatively large (or has a large growth potential), (3) a firm's market offering is well-tailored to a target segment's tastes and preferences, (4) competitors' offerings are not well-tailored to each segment, and (5), given that a firm's market offerings are viewed as equal to or better than rivals' market offerings, the firm's resource costs (relative to competitors) do not increase to the point it would occupy an indeterminate marketplace position (cell 9A in Figure 2) or disadvantageous marketplace position (cell 8A in Figure 2). In addition, R-A theory provides managers with conceptual tools (e.g., its classification schema for resources) that aid in the implementation of market segmentation strategies. Finally, when firms use segmentation strategy to compete on a segment-by-segment basis, the resulting competition prompts both proactive and reactive innovations. These innovations, in turn, promote increases in firm-level, industry-level, and societal-level productivity. Because these increases in productivity foster wealth creation and economic growth, the use of market segmentation is not just good, firm-level *strategy,* the promotion of such use is also excellent, societal-level, public *policy.*

Notes

1. Perfect competition theory is a central part of the knowledge content of the neoclassical research tradition in economics. Other key components include demand theory, general equilibrium theory, the theory of the firm, and a predisposition toward equilibrium analyses and mathematics as the preferred language of discourse. Nelson and Winter (1982) point out that the neoclassical research tradition dominates mainstream economics, and they explore whether the neoclassical tradition has become an "orthodoxy," that is, whether it provides a "narrow set of criteria that are conventionally used as a cheap and simple test for whether an expressed point of view on certain economic questions is worthy of respect" (p. 6). They conclude: "Our own thought and experience leave us thoroughly persuaded that an orthodoxy exists…and that it is quite widely enforced" (p. 6). For more on the implications of the neoclassical research tradition and how R-A theory differs from it, see Hunt (2000b) and Hunt and Arnett (2001).

2. An alternative process-oriented conceptualization is *aggregation,* as opposed to *partitioning.* In this view, the market is assumed to be completely (not just substantially) heterogeneous (i.e., each and every consumer has a set of needs and wants that is in some ways unique). Firms then categorize consumers into groups, based on (relatively) similar needs, wants, and behaviors, and produce market offerings tailored to the resulting groups. (We thank John Branch of Washington University for suggesting this alternative conceptualization to us through personal correspondence.)

3. See Hunt (2000b, pp. 39-49) for a discussion of Chamberlin's views of product differentiation and how those views changed through time.

4. The phrase "variety seeking," for many authors, connotes the view that it is consumer whimsy that drives demand heterogeneity. While it is true that differences at

times are whimsical, we maintain that genuine differences in consumer needs, wants, and use requirements are the primary factors driving demand heterogeneity.

5. The "practical purposes" she had in mind included the drawing of demand and supply curves for the "automobile market." Homogeneity is required in such cases for the determination of equilibrium prices and quantities. Analyses in the neoclassical tradition continue to follow Robinson's (1933) example. Chamberlin's (1954) later work disagreed strongly with the suggestion that the automobile industry, for the "practical purposes" of generating demand and supply curves, could be viewed as homogeneous.

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