A Response to Cadeaux and Dowling

Market Segmentation Strategy and Resource-Advantage Theory

Shelby D. Hunt and Dennis B. Arnett

Our article, "Market Segmentation Strategy, Competitive Advantage, and Public Policy: Grounding Segmentation Strategy in Resource-Advantage theory," discusses the nature of market segmentation strategy and identifies the characteristics that a positive theory of competition must possess if it is to provide a theoretical foundation for normative segmentation strategy. The article then discusses resource-advantage theory and argues that R-A theory, by meeting the criteria, provides a theoretical foundation for market segmentation strategy, that is, R-A theory can "ground" segmentation strategy. Furthermore, it argues that competition involving the use of market segmentation promotes public welfare by prompting innovations that foster firm-level, industry-level, and societal-level productivity.

Professors Cadeaux and Dowling provide comments on our article, and we thank them for taking the time to read and evaluate the arguments we present. Most of the issues that they raise in their comments result from a lack of familiarity with R-A theory. Because some readers may, similarly, not understand the nature of the theory, our reply will focus on the questions readers may have after reading our original article and the comments.

Questions Raised by Dowling

Is R-A theory a theory of the firm? Professor Dowling entitles his comment "Market Segmentation and the Resource-Advantage *Theory of the Firm*" (italics added). He claims that "Shelby Hunt and a number of his associates have been instrumental in 'bringing this theory across' to marketing from the "field of corporate strategy." As readers familiar with R-A theory will note, both of these claims are false. The claims confuse the "resource-based view of the firm" in the field of corporate strategy with the "resource-advantage theory of competition" that has been developed in marketing, management, and economics. The "resource-based view" is a positive theory of the *firm*, which has normative implications for strategy. In contrast, R-A theory is a positive theory of *competition,* which also has normative implications for strategy. It is true that the resource-advantage theory of competition adopts a resource-based theory of the firm, as reflected in foundational premises P_6 and P_7 in Table 2 of our original article. However, as is appropriate for a theory of *competition,* R-A theory has seven additional premises in Table 2, which focus on demand and other competitive dimensions. Also, as shown in Figures 1 and 2, the theory makes additional claims about how the process of competition *works.* For readers interested in reviewing the affinities and differences between R-A theory and the resource-based view of the firm, see Hunt (2000b, pp. 84-87, 2002, Chapter 9) and Hunt and Derozier (2004).

Is R-A theory one of the "parents" of segmentation? Dowling claims that our article argues that "R-A theory is one of the parents or grandparents of segmentation," and he maintains that this "traces segmentation to the wrong branch of the family tree." However, our article makes no claims about the ancestry of segmentation theory. What we do claim is that market-based economies are premised on independently owned and managed firms *competing* with each other. Consequently, because market segmentation strategy is a firm-level strategy, it takes place within the *context* of competition. Therefore, we argue that R-A theory, a theory of competition, can provide a grounding for segmentation strategy. For readers interested in the ancestry of segmentation theory, see Hunt (2000b, pp. 39-52). For those interested in the ancestry of R-A theory, see Hunt (2000b, pp. 17-104).

Does R-A theory ignore issues in resource deployment? Dowling maintains that "not all firms with a comparative advantage in resources realize a competitive advantage in the markets in which they choose to compete." For him, "competitive advantage depends on how well or poorly the firm's assets are actually *deployed* " (p. 30).

However, Dowling's criticism reflects a misunderstanding as to how R-A theory conceptualizes resources. For R-A theory, 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). Therefore, all "assets" on a firm's balance sheet are not necessarily resources, and all resources -- including some of the most important ones -- are not balance-sheet assets.

Furthermore, R-A theory distinguishes between basic and "higher order" resources. For example, the theory views organizational *competences* as "higher order" resources, that is, "as socially complex, interconnected, combinations of tangible basic resources (e.g., specific machinery) and intangible basic resources (e.g., specific organizational policies and procedures and the skills and knowledge of specific employees) that fit coherently together in a synergistic manner" (Hunt 2000, p. 144). Therefore, R-A theory does not ignore the deployment of what Dowling calls "assets." Rather, R-A theory posits that firms may have an organizational competence in proficiently deploying the basic resources that are available to the firm. For more on how R-A theory incorporates competences of all kinds see Hunt (2000 a and b, pp. 87-89) and Hunt and Derozier (2004).

Should R-A theory be re-formulated into a contingency theory? Dowling states: "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 descendant of R-A theory" (p. 31). However, there is no need to "re-formulate" R-A theory into a contingency theory, for the theory is already a contingency theory. As readers who are familiar with the development of R-A theory will recall, the article by Hunt and Morgan (1995) that first articulated the theory specifically pointed out that entities, including many "assets," become *resources* only contingently: "an asset that is a resource in one environment can become a nonresource in another if it no longer contributes to the creation of value in the firm's market offering. Even more seriously, something that was previously a resource can become what we label a 'contra-resource' and actually inhibit the creation of value in the firm's market offering" (p. 12). In the original article, we used the policy of "permanent employment" to illustrate how an entity may be a resource in one environment and a nonresource or contra-resource in another environment. Because resources are conceptualized in a contingency manner, R-A theory is already a contingency theory and need not be re-formulated.

Is segmentation one of the factors that makes R-A theory work? Dowling maintains 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" (p. 31). However, nothing in our article implies that segmentation is subservient to anything. As we state in our article, R-A theory is a theory of competition. It provides explanations and predictions regarding the *process of competition.* One aspect of that process involves the various strategies (e.g., market segmentation strategies) that firms employ and their effects on the firms that employ them, other rival firms, and consumers. Therefore, R-A theory, as a theory of competition, should be able to explain how such theories influence the process of competition. That is, R-A theory must be capable of providing theoretical foundations for them. We agree with Dowling that segmentation strategy is (or ought to be) an important component of a firm's overall strategy. However, we note that it is only one of many factors that influence the process of competition.

Questions Raised by Cadeaux

Is our discussion of neoclassical perfect competition and its implications for market segmentation a "caricaturisation" (p. 26) and a "straw man" (p. 27)? Cadeaux maintains that we compare R-A theory with a "caricaturisation [that] depicts neoclassical economics as condemning sellers' efforts to capitalise on demand heterogeneity" (p. 26). Furthermore, the "depiction of the neoclassical view comes across as a bit of a straw man" (p. 27) and we should have compared R-A theory with "potentially more valuable alternative candidates (e.g. game theoretic models, as well as dynamic multiple competitive reaction models)" (p. 26). In response, we first point out that Cadeaux provides no evidence that our discussion of the neoclassical view of market segmentation is anything other than accurate. We suggest that the reason no evidence is provided is that none exists. Second, neoclassical perfect competition theory still dominates public policy discussions concerning antitrust laws and their enforcement, at least in the United States. If neoclassical perfect competition theory is a straw man, it is the most influential straw man ever seen, as the numerous firms charged with antitrust violations each year will attest. For a more complete discussion of antitrust laws and R-A theory, see Hunt (2000 b, pp. 247-256) and Hunt and Arnett (2001).

Third, we would welcome the efforts of theorists to compare and contrast R-A theory with other theories. However, the theories to which it should be compared are theories of competition. Needless to say, "game theory," contra-Cadeaux, is *not* a theory of competition. Rather, game theory is a collection of formal modeling techniques that have been found to be useful in understanding the strategic choices of participants when they are placed in a game situation involving, at the minimum, players, strategies, and payoffs. As Baird, Gertner, and Picker (1994, p. 7), themselves advocates of game theory, put it, "game theory, like all economic modeling, works by simplifying a given social situation and stepping back from the many details that are irrelevant to the problem at hand. The test of a model is whether it can hone our intuition by illuminating the basic forces that are at work but not plainly visible when we look at an actual case in all its detail." In short, game theory may inform us as to what choices competitors might adopt in highly stylized, game-like circumstances, but game theory itself is not a theory of competition against which R-A theory can be compared.

Is R-A theory confused about competitive advantage? Cadeaux (p. 27 states: "rather confusingly, in section 3, Hunt and Arnett claim that when firms have a *comparative* advantage (disadvantage) in resources, they will occupy marketplace positions of *competitive* advantage (disadvantage). Yet, arguably, for cost to be a sustainable basis for competitive advantage, it is insufficient for it to be based on a static comparison of resources but rather on unique and non-imitable economies of scale, scope, or experience" (p. 27). However, those familiar with R-A theory will quickly note that the theory isn't confused at all. Readers should note that R-A theory, with its emphasis on renewal competences, proactive innovation, and reactive innovation is a dynamic theory of competition (see Hunt 2000b, pp. 135-153). Therefore, the theory does not rely on a "static" analysis.

Furthermore, R-A theory clears up the confusion that has resulted from writers using "competitive advantage" as a generic descriptor of all kinds of advantage. Indeed, a major advantage of R-A theory is that it-- and only it, to our knowledge -- draws sharp distinctions among three concepts that clear thinking requires should be kept separate: (1) marketplace positions of *competitive* advantage at a point in time, (2) *comparative* advantages in resources at a point in time, and (3) positions of competitive advantage that are *sustainable* through some extended period of time. First, firms pursue marketplace positions of competitive advantage because such positions lead to superior financial performance (see Figure 1 in our original article). These marketplace positions of competitive advantage may be based on lower relative costs or superior perceived value, or both (see Figure 2 in the original article). Second, R-A theory posits that the reason why firms occupy marketplace positions of competitive advantage is that they have some comparative advantage in resources. Therefore, the theory explains why some firms have positions of advantage (and disadvantage). Third, marketplace positions of competitive advantage will tend to be more long-lived (i.e., more *sustainable*) when the comparative advantages in the resources that produce the marketplace positions of competitive advantage result from resources that are relatively immobile, highly complex, interconnected, exhibit mass efficiencies, or tacit, or exhibit time compression diseconomies. Furthermore, for R-A theory, the advantages are more long-lived when there is there is causal ambiguity as to why consumers favor the advantaged competitor's market offering or causal ambiguity as to the nature of the resources that are being used by a competitor to produce the offering that occupies the position of competitive advantage. In short, rather than confusing these constructs, R-A theory shines bright light on issues related to competitive advantage.

Does competition involving segmentation strategy prompt innovation? Cadeaux maintains "that the authors assert in their conclusion that segmentation (multiple mixes) induces innovation (in some entrepreneurial sense). This conclusion is not supported by any plausible arguments or evidence in their article. In fact it is probably wrong" (p. 28). Readers familiar with R-A theory will quickly note that our discussion related to innovation is correct. First, what, indeed, did we claim? We claimed in our final paragraph that "when firms use segmentation strategy to compete on a segment-by-segment basis, the resulting competition prompts both proactive and reactive innovations" (p. 21). Second, to see how competition using segmentation strategy prompts innovation, we invite readers to re-read our definition of market segmentation *strategy:*

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 (p. 8).*

There are numerous times when firms implement the process of segmentation in a manner that prompts innovation. For example, when (1) a firm analyzes a marketplace and spots a market segment that has been poorly served and/or not served at all in the past, and (2) the firm proceeds to develop a new product and other elements of the marketing mix for that particular segment, then (3) the firm has engaged in *innovation.* Our position was correct.

Does our article obfuscate the distinction between market selection, competitive positioning, and market segmentation? Cadeaux suggests, "Arguably, one could more productively and realistically view the three named lines (B&D, Firestorm, and DeWalt) as being targeted at three distinct markets (not "segments" as such) and as having three distinct positionings relative to competitors within these *same* three product markets" (p. 28). He argues further that these "markets" are not in competition with each other and, therefore, competition occurs within them, not between them. Therefore, what is described by our Black & Decker example "is simply a product-portfolio choice" (p. 28).

Are the three groups of consumers described in our Black & Decker example (homeowners/do-it-yourselfers, weekend warriors, and professional users) market segments or distinct markets? As Wilkie (1994, p. 244) suggests, "Consumer categorization provides the basis for competition in the marketplace. It will determine in which kinds of 'evoked sets' our product will appear as a candidate for purchase." A reexamination of the three groups reveals that they are, indeed, *segments* rather than *markets.* That is, rather than being "distinct" markets, each segment is comprised of consumers "whose tastes and preferences with regard to an industry's output are *relatively* homogeneous" (p. 13). If they were "distinct" markets, then they would be *totally* homogenous and no cross-over sales would occur. For example, if the markets for DeWalt products are distinct, they should not enter the evoked sets of homeowners/do-it-yourselfers. Yet, many owners of DeWalt products, though not professional power tool users, prefer and purchase DeWalt products. (Indeed, the authors of this article both own DeWalt products, and we are certainly not professionals.)

Furthermore, even though Black & Decker targets different consumers with its different brands, it recognizes that consumers often choose to purchase brands that are not targeted specifically to them. That is, even though Black & Decker expends a great deal of effort steering its professional power tool consumers away from its other brands, it recognizes that to some extent its three brands compete with each other (Black & Decker 2001). Therefore, our use of the Black & Decker example does not obfuscate the distinction between market selection, competitive positioning, and market segmentation. Rather, the Black & Decker example illustrates how R-A theory can ground market segmentation strategy.

In conclusion, we thank Professors Dowling and Cadeaux for taking the time to read our article and provide comments on it. We hope that our reply has clarified the role that the resource-advantage theory of competition can play in grounding market segmentation strategy. This is one reason, among several others, that Hunt (2002) argues that R-A theory is "toward" a general theory of marketing. We invite readers to consider this claim.

References

Baird, D.G., Gertner R.H., Picker R.C., 1994. Game Theory and the Law. Harvard University Press, MA.

Black & Decker, 2001. 4Ps Campus Presentation, The Black & Decker Corporation, Hampstead, MD.

Cadeaux, J., 2004. Market Segmentation, Target Market Selection, and Competitive Advantage. Australasian Marketing Journal, 12 (1), 30-31.

Dowling, G.R., 2004. Market Segmentation and the Resource-Advantage Theory of the Firm: A Comment on Hunt and Arnett's Contribution. Australasian Marketing Journal, 12 (1) 30-31.

Hunt, S.D., 2000a. The Competence-Based, Resource-Advantage, and Neoclassical Theories of Competition: Toward a Synthesis. In Sanchez, R., Heene, A., (Eds.), Theory Development for Competence-Based Management. JAI Press, Greenwich, CT, pp. 177-208.

Hunt, S.D., 2000b. A General Theory of Competition, Sage Publications, Inc, Thousand Oaks, CA.

Hunt, S.D., 2002. Foundations of Marketing Theory: Toward a General Theory of Marketing, M.E. Sharpe, Armonk, NY.

Hunt, S.D., Arnett, D.B., 2001. Competition as an Evolutionary Process and Antitrust Policy. Journal of Public Policy and Marketing 20 (1), 15-26.

Hunt, S. D., Derozier C. 2004. The Normative Imperatives of Business and Marketing Strategy: Grounding Strategy in Resource-Advantage Theory. Journal of Business & Industrial Marketing 19 (1), 5-22.

Hunt, S.D., Morgan, R.M., 1995. The Comparative Advantage Theory of Competition. Journal of Marketing 59 (2), 1-15.

Wilkie, W., 1994. Consumer Behavior (3rd Edition), New York, NY: John Wiley & Sons, Inc.