



Information Technology and Quantitative Management (ITQM 2017)

# An Empirical Investigation of Factors Influencing the Development of Positioning Strategy

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## Abstract

This study empirically tests a comprehensive set of relevant factors taken into consideration by the firms while developing positioning strategy, some of them for the first time in this context, and subsequently examines the impact of positioning strategy on firm's financial and non-financial performance. The positioning strategy is posited to be influenced by customer orientation, competitor orientation, innovation orientation, environmental dynamism, and marketing capability. Product life cycle and industry environment serve as control variables in hierarchical regression. The findings of this study are based on a sample of top management of 194 manufacturing concerns from Canadian technology sector.

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Peer-review under responsibility of the scientific committee of the 5th International Conference on Information Technology and Quantitative Management, ITQM 2017.

**Keywords:** positioning strategy; customer orientation; competitor orientation; marketing capability; environmental dynamism; innovation

## 1. Introduction

Positioning is defined as “the act of designing the company's offerings (products and services), so that they occupy a meaningful and distinct competitive position in the target customers' minds” [1]. Positioning strategy is defined as the choice of target segments and the selection of differential advantage(s) used by a firm to compete in the market [2]. The differential advantage used by the firm to compete is called the dimension of positioning strategy. The firms normally compete on one or more dimensions such as innovation, quality, value, service, etc.

Though positioning has been studied extensively from the perspective of the consumer, there are only a handful of studies which look at positioning from the firm's perspective. There are only a few empirical studies which study the positioning development process of the firm, and these do not delve into the details of factors taken into consideration by the firms while developing positioning strategies [3]. With reference to Resource Based View, Hooley, Broderick, and Möller [4] state that the positioning alternatives available to firms are limited by their resources and capabilities. However, there are only two studies [5,6] which study the impact of a firm's assets and capabilities on its positioning strategies. Influencing factors such as customer and competitor orientation have not been deliberated in the literature with the exception of Gurău [6] who accounts for competitive conditions. Our

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research addresses these gaps, first, since it studies the firm's perspective on positioning and, second, because it is the first study to include a comprehensive set of influencing factors.

Though various authors suggest there that there is a positive relationship between a company's performance and clearly defined positioning strategies, the empirical evidence to support this proposition is very limited. The objective of this research, thus, is twofold:

- A) What factors are taken into consideration by the firms while choosing positioning strategy dimension/s?
- B) What is the impact of firm's positioning strategy on its performance?

## 2. Conceptual Model and Research Hypotheses

### *Positioning Strategy Dimensions*

"Positioning strategy dimension" for this study is defined as features, benefits, attributes, any other characteristic or differentiating aspect offered by the firm to the customer. Two approaches are used in this study to identify positioning strategy dimensions. First, the positioning literature is extensively reviewed to develop taxonomy of positioning dimensions, based on the content analysis. Second, major positioning typologies proposed in the literature are identified and compared with one another.

All the top six positioning strategy dimensions identified based on taxonomy (content analysis) and all the dimensions culled from the empirically tested positioning typologies are used for this research [5,7]. Thus, the eight positioning strategy dimensions used for this research are: customer focus, product focus, brand focus, innovation, quality, service, price and value.

### *Customer Orientation*

It is stated that keeping a close contact with customers "...leads to a better understanding of customers' needs, closer tailoring of products and services, higher customer satisfaction, easier forecasting of demand, and closer relationships" [8]. Understanding and analyzing customer needs is an integral component of positioning development process [9]. The choice of positioning strategy dimensions would, therefore, be influenced by customer orientation.

H<sub>1a</sub>: Customer orientation will have a positive and significant impact on dimensions of positioning strategy.

### *Competitor Orientation*

By defining its competition and clearly stating its positioning, a firm can protect itself from the competitive pressures of other firms. Competitor orientation, thus, seems necessary for the development of positioning strategies.

H<sub>1b</sub>: Competitor orientation will have a positive and significant impact on dimensions of positioning strategy.

### *Marketing Capability*

The marketing capability enables firms to identify customers' needs and build relationships with them, differentiate products and services from competitors, and manage relationships with suppliers and other strategic partners. [10] and [5] comprise handful of studies in the literature which consider the role of marketing capability in the development of positioning strategies. In this study, it is measured by four subfactors – communication, planning, distribution and customer requirements.

The firms can align its market-based resources and marketing capabilities to produce desired results [11]. Since positioning is based on the firm's sustainable competitive advantages and marketing capability enables the firms to achieve competitive advantage, it can be stated that marketing capability will have an impact on the chosen positioning strategy.

H<sub>1c</sub>: Marketing capabilities will have a positive and significant impact on dimensions of positioning strategy.

### *Innovation Orientation*

Innovation is a key weapon that marketers use to win customers, through the development of sustainable competitive advantage [12]. Innovation is considered as a vital success factor in a highly competitive, global economy [13].

For this study, innovation is defined as, "openness to new types of technologies, the ability to search for these technologies proactively, being able to recognize them early on, and reacting to them appropriately, as well as an attempt to use these technologies purposefully for innovation to develop technologically first-class products that

are superior to those of the competitors” [14]. The ability of the firm to achieve competitive advantage through positioning would be determined by the innovation orientation of the firm.

H<sub>1d</sub>: Innovation orientation will have a positive and significant impact on dimensions of positioning strategy.

### ***Environmental Dynamism***

It is imperative for firms to continually monitor their environment for changes in buyer preferences, rapid environmental changes, and increased competition. Such changes could make the firm’s current positioning outdated and/or offer new growth opportunities. Environmental dynamism is defined as the “rate of environmental change and unpredictability of that change” [15]. This change can be caused by the entrance of new competitors, changes in customer preferences and variations in the firm’s technological capabilities [15]. Since positioning strategies are influenced by the external environment, it is, therefore, posited that environmental dynamism will have an impact on positioning strategies.

H<sub>1e</sub>: Environmental dynamism will have a positive and significant impact on dimensions of positioning strategy.

### ***Organizational Performance***

It is recommended that researchers should consider multiple indicators of the performance to get a more comprehensive assessment of the performance [16]. The organizational performance measure for this study comprise of financial - market share, sales growth, return on investment, overall profit and profit growth and non-financial, customer satisfaction and customer loyalty. Each dimension of the positioning strategy is posited to have an impact on financial and non-financial performance of the firm, as depicted in the following hypotheses:

H<sub>2a</sub>: Customer focus positioning strategy will have a positive effect on firm’s financial and non-financial performance.

H<sub>2b</sub>: Product focus positioning strategy will have a positive effect on firm’s financial and non-financial performance.

H<sub>2c</sub>: Brand focus positioning strategy will have a positive effect on firm’s financial and non-financial performance.

H<sub>2d</sub>: Innovation positioning strategy will have a positive effect on firm’s financial and non-financial performance.

H<sub>2e</sub>: Quality positioning strategy will have a positive effect on firm’s financial and non-financial performance.

H<sub>2f</sub>: Service positioning strategy will have a positive effect on firm’s financial and non-financial performance.

H<sub>2g</sub>: Price positioning strategy will have a positive effect on firm’s financial and non-financial performance.

H<sub>2h</sub>: Value positioning strategy will have a positive effect on firm’s financial and non-financial performance.

### ***Product Life Cycle and Industry Environment***

There are four stages in product life cycle – introduction, growth, maturity and decline. The product life cycle affects the positioning strategy since consumer preferences become refined with the passage of time. The industry environment as depicted by Porter’s five forces model comprises supplier power, buyer power, barriers to entry, threat of substitutes, and degree of rivalry among firms. The industry environment influences a firm’s competitive actions, responses, and its performance. Since both product life cycle and industry environment could have an impact on the choice of positioning strategy dimensions, they are treated as control variables.

## **3.0 Methodology, Analysis, and Findings**

The data for this research was collected using the self-administered mail survey method. Total of 194 usable questionnaires were returned with a response rate of 8%. There was no non-response bias and common method variance as tested using t-test and Harman’s one factor test respectively.

### ***Principal Component Analysis***

The purpose of PCA is to reduce the dimensionality of the data set. PCA resulted in removal of 9 items due to loadings less than 0.50. The Cronbach's Alpha values range from 0.63 to 0.92, all exceeding the recommended level of 0.60. To attain content validity, a thorough and extensive literature review was conducted. Inter-item correlations were high and inter-construct correlations were low, thus establishing convergent and discriminant validity.

### ***Hierarchical Regression Analysis***

Two sets of hierarchical regression analyses were performed using positioning strategies and organizational performance as the dependent variables. All regressions were controlled for industry environment and product life

cycle. Three dimensions of Porter's industry competitiveness model - rivalry, threats of substitutes and power of supplier - are included in the study. The items for buyer power and barriers to entry did not load in PCA. Dummy variables were created for product life cycle, where 0 was coded for introduction, 1 for growth, 2 for maturity, and 3 for decline. 16 different multiple regressions were conducted; two for each dependent variable – one with control variables only and other with control and independent variables. As indicated by the F-statistic, all the models with both control and independent variables were statistically significant and substantive predictor of positioning strategy dimensions with influencing factors. The  $R^2$  range from low of 0.131 (service) and 0.189 (price) to high of 0.529 (innovation) and 0.435 (brand focus).

Customer orientation positively impacts one out of eight positioning strategy dimensions, quality (.176). Competitor orientation affects two positioning strategy dimensions, innovation (-.220) and quality (-.210), but interestingly negatively to both. Thus, hypotheses 1a and 1b are partially supported. Various aspects of marketing capability have different impact on each dimension of positioning strategy. For instance, distribution capability is a predictor of product focus and quality and planning capability is predictor of innovation. Hypothesis 1c is, thus, partially supported. Innovation orientation has a positive significant impact on product focus and innovation strategy while environmental dynamism impacts innovation strategy. Hypotheses 1d and 1e are also partially supported.

The control variable product life cycle significantly affects two positioning strategy dimensions – customer focus and service, in growth and maturity stage. The emphasis on customer focus and service as a positioning strategy increase in growth stage and become even higher in maturity stage. The control variable industrial environment impacts three positioning strategy dimensions – brand focus, quality and price. Rivalry in the industry positively impacts price positioning strategy while supplier power influences brand focus and quality positioning.

#### ***Positioning Strategy and Organizational Performance***

There are a total of eight positioning strategy dimensions in the analysis. However, only three – customer focus, brand focus, and value are significant predictor of financial performance. Brand focus and quality are significant predictor of non-financial performance. Brand focus is the only positioning strategy dimension which is the significant predictor of both financial and non-financial performance. Hypothesis 2c is thus fully supported while hypotheses 2a, 2e and 2h are partially supported. Hypotheses 2b, 2d, 2f, and 2g are not supported. Only one control variable product life cycle influences organizational performance. Non-financial performance is negative in decline stage.

#### **4.0 Conclusion and Discussion**

We attempted to answer two broad questions related to positioning strategy: What factors are taken into consideration by the firms while choosing positioning strategy dimension/s? And what is the impact of firm's positioning strategy on its performance?

Customer and competitor orientation are theoretically considered to be the bedrock of positioning strategy. However, it was found that the development of positioning strategy is influenced more by customer orientation than competitor orientation, though the impact of customer orientation was not as strong as expected. These findings could also be attributed to the fact that majority of the firms are small and may not have a system in place to develop a positioning strategy which formally and systematically conducts customer and competitor analysis. Nonetheless, more research is needed to understand the impact of customer orientation and competitor on the adoption of a particular positioning strategy dimension

Marketing capability plays an important role in the development of positioning strategy. One of the major findings of the study was the identification of certain marketing capability to support a specific positioning strategy. Understanding customer requirement appears to be the most important marketing capability which positively influences positioning development process. It could be argued that customer orientation is prerequisite to understanding customer requirements so the importance of customer orientation to positioning development process is thus indirectly established.

There seem to be two different routes to enhanced organizational performance through positioning strategies. First, the firms equipped with customer knowledge emphasize quality but reap benefits only in the form of improved customer satisfaction and loyalty. Similarly, with a sound understanding of customer's requirements, firms customize products to meet customer needs which leads to improved financial performance. However, the second route, the focus on brand and company image leads to both – higher customer satisfaction, more loyalty and better financial performance. Incidentally, the major focus of such firms is not on understanding customer requirements but on communicating brand and company image through advertising.

Price positioning strategy, in line with the findings of other studies in the literature, is considered insignificant by the respondents since it does not lead to any competitive advantage.

This research identifies, highlights, and brings forth several issues which provide opportunities for future research. Despite strong theoretical support for customer and competitor orientation for development of positioning strategy, they were not positively significant for most of the positioning strategy dimensions. Therefore, more research is required to further understand the positioning strategy development process, specifically the impact of customer and competitor orientation. Qualitative research, in particular, as a follow up to quantitative research, would be useful in understanding the underlying reasons and motivations.

Majority of the firms – 80%, were small size firms. However, replication of the study to the large firms would extend the findings to a broader spectrum of firms. Also, as compared to medium and large firms' smaller firms have low profitability, low focus on market orientation, higher use of product focus positioning strategy, less focus on costs capability and more focus on flexibility capability. It points to the possibility of attaining different results if the study is replicated with large firms. It would, thus, also confirm if the same set of variables are applicable to both types of firms.

This is one of the first studies to use product life cycle and industry environment as control variables. Further research is needed to understand the role and influence of these control variables, in particular industry environment, upon positioning strategies.

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