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An integrated marketing capability benchmarking approach to dealer performance through parametric and nonparametric analyses

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ABSTRACT

The role of marketing capabilities as a source of sustainable competitive advantage has been discussed previously in the marketing strategy field. Benchmarking, a well-known learning mechanism, is suggested as a tool to identify and improve the marketing capabilities of a firm. Despite its popularity as a theoretical concept, there is not much empirical evidence to support the view of benchmarking marketing capabilities as a route to guide managers' efforts in this direction. This paper contributes to the three perspectives in the literature that support the view that benchmarking marketing capabilities can offer a basis for sustainable competitive advantage of the firm through both a conceptual and integrated benchmarking model. They are empirically analyzed using stochastic frontier and data envelopment analysis methods based on four-year data set of forty-five dealers of a leading business-to-business supplier. The results indicate the importance of competent salespeople and building a long-term relationship in enhancing dealer performance. In addition, they reinforce a recipe of how marketing capabilities can be benchmarked to achieve sustainable competitive advantage. Discussions and implications for managers are also presented.

1. Introduction

The role of marketing capabilities as a source of sustainable competitive advantage has been discussed previously in the marketing strategy field. Recently, benchmarking, a famous management tool for organizational learning, has been suggested as a method to improve the marketing capabilities of a firm (e.g., Andersen, 1999; Vorhies & Morgan, 2003). Benchmarking is the process of identifying the highest standards of excellence for products, services or processes, and hence making the improvements necessary to reach those standards, which are commonly called “best practices” (Biehl, Cook, & Johnston, 2006; Bhutta & Huq, 1999). It offers the opportunity to recognize good performance and expose poor performance for remedial action.

In both academia and the business world, benchmarking has been discussed and analyzed in terms of the processes of marketing implementation, i.e. the ways in which a company converts its marketing inputs of cash, information, expertise, time, and strategy into marketing outputs of new products, communications, customer expectations, sales, and margins. Benchmarking of marketing productivity, processes, and capabilities utilize diverse methods. Some methods rely on an expert assessor external to the company for scoring marketing capabilities as input to regression analyses (Woodburn, 1999). Other types of methods rely on financial data and operating statistics to estimate efficiency frontiers through data envelopment analysis (Donthu, Hershberger, & Osmonbekov, 2005), and stochastic frontier analysis (Dutta, Narasimhan, & Rajiv, 2005). Despite its popularity as a theoretical and empirical concept, there is not much evidence to support the view of benchmarking marketing capabilities as a way to sustainable competitive advantage or to guide managers' benchmarking efforts (Vorhies & Morgan, 2005).

We build our study on three theoretical perspectives of benchmarking marketing capabilities mentioned in the literature. These are resource-based view of the firm, market orientation, and organizational learning. Our aim is to demonstrate the relevance of these theoretical perspectives of benchmarking in a business-to-business (B2B) context; specifically in a dealership network for this study. Characteristics of business markets include, among others, a small number of customers, long-term business relationships, and a high degree of interaction between members of the supplier and the customer company (Homburg & Fürst, 2005). There are several reasons to choose a B2B context for this study. Companies doing business in a B2B environment have a narrower range of marketing measures available to them, and generally focus on expenses, which rarely contribute to performance improvement (White & Dieckman, 2005). However, a supplier's deployment of marketing and sales channels can significantly improve its strategy and can even lead to a structural transformation in channels (Wilson & Daniel, 2007). In this

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transformation, dealers play a critical role for complex product sales by creating customer knowledge of the products; working with the customer to discover the best solution and providing after-sales support (Sharma & LaPlaca, 2005). So, measuring outcomes from marketing activities in a dealer distribution channel is becoming increasingly important in a competitive environment and benchmarking offers the opportunity to recognize good performance and expose poor performance for remedial action.

Based on the three theoretical perspectives and the B2B context indicated above, this study will be conducted in two parts. In the first part, we introduce our conceptual model adopted from Dutta, Narasimhan, and Rajiv (1999), which offers a resource-based perspective on a firm's marketing capabilities and the impact of these capabilities on financial performance. In the second part, we have an integrated benchmarking model adopted from Ross and Droge (2002), in which nonparametric approaches are incorporated into the model to benchmark the temporal performance of dealers. According to Vorhies and Morgan (2005), there are two benchmarking alternatives; functional and integrative benchmarking. In functional benchmarking, individual capabilities are assessed separately whereas in integrative benchmarking a set of related capabilities is assessed collectively (Fawcett & Cooper, 2001). In this study, we implement integrated benchmarking, in which the existence of interdependencies between individual capabilities can be a source of competitive advantage (e.g., Teece, Pisano, & Shuen, 1997). Our data set has a panel setting, which includes four-year time period data of forty-five dealers of a leading B2B supplier, and we employ stochastic frontier estimation and recent extensions of data envelopment analysis to analyze the functional forms.

We explore three research questions in this paper. First, we examine how efficiently the dealers utilize marketing capabilities to transform marketing resources to superior financial performance. Second, we explore whether there exists any efficiency trends in the observed ranking order of dealer performance over time. Third, we look at whether there has been a shift in the efficiency frontier of dealers across time, specifically we analyze whether each dealer maintains its relative position i.e. efficiency ranking in comparison to other dealers during the four-year time period. Related with the second research question, we also conduct additional window analysis to identify the role model of inefficient dealers in the network.

There are several expected contributions of this study. First, by using analytical techniques, we attempt to understand and analyze the complex phenomenon of the impact of marketing capabilities on firm performance that is underserved by statistical procedures. Second, we take an applied economics view and show that organizational marketing efforts make some firms more competitive than others. Third, the introduction of efficiency methods to examine the impact of marketing capabilities in a B2B context proves the value of benchmarking as a tool, empirically.

The organization of the paper is as follows. In the next section, we introduce the industry background of this study. Next, we explain the conceptual model, first by emphasizing the different theoretical perspectives of benchmarking marketing capabilities in the literature, then by identifying the marketing capabilities that are going to be used in our empirical analysis. In the method section, we describe the data set, input and output factors, and also the procedures of parametric and nonparametric analyses. After we give the results of our analyses, we discuss their theoretical, empirical, and managerial implications. Limitations and suggestions for future research conclude the paper.

2. Industry background

This study examines North American office furniture industry dealers that target large to middle-size installations in the commercial, medical, and government sectors. The context is an interesting for two reasons. First, nearly all organizations buy or rent office furniture; second, over 70 percent of this buying process happens through independent dealerships that sell products from multiple manufacturers and offer various services within a geographical area. Therefore, findings from intensive studies in office furniture purchasing highlight the importance of dealers to provide design, inventory, credit, and related services to customers during the buying process (Woodside, 2003).

In our study, the dealers are full service furniture dealerships offering premier products at competitive prices, a full range of furniture services, and great customer service. They operate in a competitive environment for two important reasons; demand fluctuations and industry rivalry. Sales of office furniture in the United States declined from a high of \$14.8 billion in 2000 to just over \$10 billion in 2003, increasing slightly to \$11.9 billion in 2005. Along with the fluctuation in the U.S. demand, imported products competing with the U.S. manufacturers have grown from less than \$1 billion dollars in 1996 to \$2.28 billion in 2005 (BIFMA, 2006). Most of what a dealership sells is manufactured by someone else and distribution agreements with the leading manufacturers are not exclusive to a geographical area. So, competition involves not only dealers for other manufacturers, but also dealers offering identical products (Woodside, 2003). In an article by Zimmerman (1990), a leading design firm executive stresses that major projects gravitate to larger dealerships with a vast financial base that offer consistent service. The current strategies of dealers for reacting to competitive pressures focus on reducing operating expenses while diversifying product and service offerings (Epperson, 2005).

Another reason for this competitive environment is, unlike most retail distribution organizations, the process of sales and marketing practices is relatively complex. The complexity of sales and related services in office furniture industry is mainly due to the prevalence of modular office systems (i.e. cubicles) and new technology demands from telecommunication and computer innovations. When customers start to look at furnishing a completely new office or restructuring existing office space for new purposes, dealers enter in a bidding process requiring months of investment in preparing a solution for customer needs (Woodside, 2003). One of the most important components of this customized solution is the design services offered by dealerships to customers to ensure accurate plans and specifications, conformance to client's requirements, customer satisfaction, and project implementation (OFDA, 2004b). The design group helps to increase sales by providing the customer with creative solutions for the facility needs and offering advice that goes beyond just product use. Woodside (2003) finds that a superior design may result in a contract even when the dealer is not the lowest bidder.

In this competitive environment, sustainable financial stability of dealers is even harder. However, as Gassenheimer, Sterling, and Robicheaux (1996) address, a dealer's economic performance is also an increasingly important factor affecting future intention to maintain, diminish or enhance the relationship with its major supplier. The major component of the dealer's financial viability is the market mix of products and sales services. Along with the design services mentioned above, most product sales also include delivery, on-site installation, and some value-added services such as project management, installation, refurbishments, inventory management, and maintenance. Offering these additional services along with sales services helps to establish long-term customer relationships while providing a degree of financial stability. As product margins stabilize because of increased competition, increasing service margins can influence dealer profitability. The industry publication, Office Furniture Update, states that in a time when dealers are struggling to stay afloat, many are finding that value-added services that can generate a profit are the key to being successful in today's market (2004b).

However, the success of dealers in this competitive environment goes beyond the traditional metrics of financial performance. Aside