Marketing Intangibles-Based Competitive Advantage: A Paradigm Shift beyond Traditional Management

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ABSTRACT
The paper highlights the increasing interest in the important field of marketing intangibles. Emphasis is made on the concept, mechanisms and importance of the management of such intangibles with a view achieving sustainable competitive advantage. The importance of this topic is manifested in the increasing attention being paid by numerous organizations to fields closely related to intangibles such as Customer Relationship Management (CRM), Customer Long-Life Value (CLLV), Customer Portfolio (CP), etc.

As organizations are competing on the basis of intangibles compared to financial and physical assets, the paper calls upon these organizations to transform the traditional management of marketing tangibles to a management of marketing intangibles, such a new management would be responsible for the enhancement of the utilization of marketing intangibles, thus resulting in the enhancement of the firm’s value and the reduction of the risk. Intangibles should be managed in an innovative way in order to achieve the desired sustainable competitive advantage.

Keywords: Intangibles; marketing intangibles; management of intangibles; CRM; CLLV; CP.

1. Introduction

One of the major barriers to understanding the Intangible Economy is that even the description of intangibles is rather intangible. Intangibles range from employee skills and know-how and informal relationships that enrich creativity and new ideas to formal intellectual property and brand names. The term is often used narrowly only to describe these latter “hard” intangibles, which are often also categorized as intangible goods. The former set of intangibles – employee know-how, relationships, tacit knowledge – is sometimes referred to as intangible competencies. Intangibles are used both internally in a company (as part of the production process) and marketed externally. The business model for marketing/selling intangible goods outside the company is well known: licensing, royalties, etc. Marketing intangible competencies is another matter – especially if that intangible was developed for internal use.
The majority of successful firms find themselves today competing with each other on the basis of a package of intangible assets, and not merely on hard technology and data banks. Intangible assets, as opposed to tangible assets, have been proven to be the real source of competitive advantage. The era of traditional sources of competitive advantage has given way to unfamiliar and new sources of competitive advantage whose creation and formulation take longer time to achieve, and which are difficult to measure and evaluate. The era of intangibles is based on hidden advantage or as (Low et al., 2002) say on the invisible advantage. Furthermore, numerous studies show that the market value for firms is much greater than their book value (which is determined by tangible assets) (Lev, 2001), and the difference between the market value and the book value is attributed to intangible assets. It seems that attention is now being given to the intangible assets which were for years left unexploited under the pretext that they were difficult to measure and evaluate compared to the financial, physical and technological aspects. Intangibles were often viewed as intuitive factors or forces that were not subject to measurement as they were subjective in nature. Yet, we are currently witnessing a paradigm shift in the utilization of econometrics in these intangible aspects and factors, as in the case of relationship economies (Nour, 2008), experience economies (Pine and Gilmore, 1999), loyalty economies (Reichheld, 2001), feelings economies (Hill, 2008), and trust economies (Fokoyama, 1995). To illustrate, for the $15 million that Six Sigma costs a year, GE Commercial Finance buys a ton of customer loyalty and sets itself apart in what is otherwise a commodity-service business. Perhaps even more important, the program increases the odds that the mid-size firms to which GE is lending money will not only stay in business long enough to pay back the loans, but will be more likely to grow in the future as will their need for capital. "We know instinctively that the benefits to us are substantial," said Sharon Garavel, who heads up the program. "Our customers have told us that they intend to give us a larger share of their business." By her reckoning, it has already generated 350,000 hours of free consulting services to more than 3,000 customers since 2002, saving them collectively more than 1.2 billion US dollars (Nour, 2008).

The objective of this paper is to introduce the concept and mechanism of intangibles in a marketing context, and to show that intangibles can be marketed as proficiently as tangibles are, and that intangibles can contribute toward sustainable competitive advantage if they are properly handled in the marketplace. Indeed the increasing interest in trademarks, branding, reputation and human capital by leading practitioners and academicians is a clear indication that the future will witness more emphasis on ways and means of marketing intangibles in a manner that may be superior to the marketing of tangibles. The current paper attempts to investigate and discuss this kind of development in the marketplace.

2. Intangibles: Concept and Importance

Under the knowledge-based economy, materials, financials, and tangible assets are less important than knowledge, intellectual capital, and intangible assets. These intangible assets constitute the symbol of the new era—i.e. the knowledge-based economy. Intangibles or intangible assets are more important for the modern firm which relies on such assets for the generation and creation of value, and building its image and enhancing its trade mark, and
establishing relationship with its stakeholders, major among them are customers and suppliers.

Firms possess two kinds of assets namely; tangible and intangible assets. Tangible assets are represented by land, building, machinery and materials. Intangible assets take the form of patents, brand, copyright, and goodwill, in addition to leadership, relationships, employees’ experiences and expertise, etc. Intangibles can be effectively used to create value for the firm. However, intangibles in the most part of it can easily be leaked from the firm because they are not owned by the firm in the same way as tangible assets are.

Asset is the contractual promise that has the capacity to give rise to cash inflows or a reduction in cash outflows (IASB, 2006). Also assets can be defined as “probable future economic benefits obtained or controlled by a particular entity as a result of past transactions or events ”(Cohen, 2005). Lev defines intangible asset as a claim to future benefits that does not have a physical or financial embodiment (Lev, 2001).

It can be seen from such definitions that an asset is a promise of future benefits. As assets are two kinds: tangible and intangible. This definition applies to both kinds of asset. As such, an intangible asset such as patent or trade mark or copy rights can be defined as an intangible asset that represents a promise of future benefits (www.valuebasedmanagement.com).

3. Why Intangibles Now?

Miyagawa (2007) provides a clear-cut answer to this question, saying that there are three major reasons in world economy, namely: (1) the accumulation of investment in intangibles on a wide scale (exceeding 10% of Gross Domestic Product in some advanced countries); (2) the contribution of intangibles in enhancing productivity; (3) the possibility of measuring intangibles and evaluating them with a certain degree of accuracy.

Other reasons may include the emphasis by certain leading firms on outward orientation as opposed to inward orientation. For years, the majority of firms have been concentrating on their internal operational systems which constituted a cost burden on them, whereas revenues were outside the firm's boundaries. Assets were also inward oriented. Today, firms are moving outward, where there exist relationships, the value of the trade mark, goodwill and intellectual property rights in licenses, franchises, in addition to the fact that the market value has become increasingly dependent on intangible assets as opposed to tangible assets.

The transformation to the knowledge-based economy has also contributed to this emphasis on intangible assets. Wealth creation in the new economy is no longer dependent on natural resources, machinery, or materials for industrial products, but on knowledge and expertise. The stars of wealth are not Standard Oil, GM, but Microsoft, Google, and Amazon whose leaders have built their enterprises through the establishment and creation of the new knowledge (innovation), transforming it into new products and services for new markets.

Besides, the contribution of intangibles within the firm's total assets has almost doubled. In the advanced economies that are based on knowledge, the share of intangibles in the value of the national wealth has increased tremendously. In knowledge-intensive industries, like the software business, the book-to-market value has often dropped below 10% (Daum, 2003). Lev (2001) reports an average market-to-book ratio of the Standard & Poor's, 500 comprises for 2000 of 7.5 times (Lev, 2001).
Furthermore, the dominant resource-based strategy pursued by leading organizations today has been proven to be a good source of sustainable competitive advantage (Barney and Clark, 2007).

The resources embedded in such strategy are: human capital (knowledge and labour), financial capital (cash flow and loan ratio), physical capital (building, equipment and materials) and the social capital (relationships with stakeholders).

4. Marketing Intangibles: ways and means

Traditionally marketing has gone through different stages of development from the adaptation of the production concept (the idea that consumers will favor products that offer the most in quality, performance, and features) to the selling concept (the idea that consumers will not buy enough of the firm’s products unless it undertakes a large-scale selling and promotion efforts), and recently to the marketing concept (the marketing management philosophy that holds that achieving organizational goals depends on knowing the needs and wants of target markets and delivering the desired satisfactions better than competitors do).

Customer and stakeholder-orientation within what is called relationship marketing has become a best business practice (Huber, 2008). The next expected development is intangibles-orientation where marketers are expected to enhance marketing productivity through the marketing of intangibles (see figure 1).

Indeed, the increasing interest shown by academia and practitioners in the field of marketing intangibles such as CRM, customer hierarchy, customer portfolio, customer long life value, loyalty effect, customer equity, etc. is an evidence that intangible assets are gaining weight in company’s calculations. According to the Australian Marketing Institute, intangible assets represent two thirds of global market value, or about US$25 trillion. Brands and customer relationships contribute a hefty portion of this value (AMI, 2008).

Marketing intangibles are defined as non-financial assets without physical presence that operate and influence on marketing function. Those assets represent claims to some future benefits in the marketing function and sphere. This definition refers to the followings:

1. Not all ingredients and components of intangibles are related to marketing. For instance, patents are hard intangibles; yet they are not marketing intangibles.
2. Intangibles are equal with intangible assets in that they both promise future benefits.

Marketing intangibles can be seen through intellectual property rights and components of intellectual capital. Marketing intangibles in the context of intellectual property rights may include trademarks, brands, company logos, copyrights and goodwill. As for intellectual capital, it can be manifested in customer or relational capital, brand and corporate reputation, marketing human capital, and marketing managers and professionals.
The measurement and evaluation of marketing intangibles has gained special importance due to the following reasons:

1. Companies no longer sell the product, but its promises, relationships, benefits, satisfactions, etc., that attract the customer and retain him/her.
2. The total value of the marketing function within the value of the company is reflected in the value of its brands, customers and other intangibles.
3. Intangibles constitute the most important source of competitive advantage.
4. Intangibles contribute to company’s market value.

5. Classification of Marketing Intangibles

Marketing intangibles are part of the company’s intangible assets. These intangibles contribute to market value and competitive advantage. Marketing literature has paid little attention to the issue of marketing intangibles. Yet, this literature paid attention to aspects and dimensions that can be considered as components of marketing intangibles such as brand equity, customer equity (Reinartz and Kumar, 2000), employee loyalty, and customer lifetime value. Yet, clear cut references to marketing intangibles are rarely made in the literature. (Reilly and Schwiehs, 1999; Berry, 2004).
Table 1: shows a comparison between intangibles and marketing intangibles.

<table>
<thead>
<tr>
<th>Author</th>
<th>Intangibles</th>
<th>Marketing intangibles</th>
</tr>
</thead>
<tbody>
<tr>
<td>Traditional Accounting</td>
<td>- Brand</td>
<td>- Brand</td>
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<tr>
<td></td>
<td>- Copyright</td>
<td>- Copyright</td>
</tr>
<tr>
<td></td>
<td>- Parent</td>
<td>- Goodwill</td>
</tr>
<tr>
<td></td>
<td>- Goodwill</td>
<td>- Trade secrets ( included marketing secrets )</td>
</tr>
<tr>
<td>-Financial and Accounting Standards Board 142   (FASB 142 )</td>
<td>- Legally based intangibles</td>
<td>- Some of legal intangibles</td>
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<tr>
<td></td>
<td>- Based on contracts</td>
<td>- Based on contracts</td>
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<td></td>
<td>- Based on technology</td>
<td>- Based on marketing people</td>
</tr>
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<td></td>
<td>- Based on workforce</td>
<td>- Based on the customer</td>
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<td></td>
<td>- Based on organization</td>
<td>- Based on the market</td>
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<td></td>
<td>- Based on the customer</td>
<td>- Based on the customer partial based on the market</td>
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<tr>
<td>Lev (2001)</td>
<td>- Organizational intangibles</td>
<td>- Partially human intangibles</td>
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<td></td>
<td>- Human intangibles</td>
<td>- Intangibles of marketing innovation</td>
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<td></td>
<td>- Innovation intangibles</td>
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<tr>
<td>Standfield ( 2005 )</td>
<td>- Intangibles without ownership</td>
<td>- Knowledge and experience of marketing people</td>
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<td>- Intangibles with legal ownership</td>
<td>- Intangibles marketing with legal ownership</td>
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<tr>
<td></td>
<td>- Financial intangibles</td>
<td>- Customer relationship</td>
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<tr>
<td>J. Berry (2004) (Based on balanced scorecard)</td>
<td>- Customer relationships</td>
<td>- Customer perspective : customer loyalty, satisfaction, and lifetime value</td>
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<tr>
<td></td>
<td>- Innovation : process and product innovation</td>
<td>- Internal business process perspective : sophisticated marketing techniques, ability to innovation</td>
</tr>
<tr>
<td></td>
<td>- Employee relationships</td>
<td>- Learning and growth perspective : skills and retention</td>
</tr>
</tbody>
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6. Marketing intangibles and sustainable competitive advantage

There is no doubt that marketing is the major source of company’s relationships with all its stakeholders. It is also the strongest chain in the company’s chain value. This is due to the fact that through marketing the company gets much closer to its markets, customers and all stakeholders. With increasing competition, competitive advantage tends to have shorter life. For this reason companies are exerting utmost efforts to make competitive advantage more sustainable. However, sustainability requires new ways of strategic thinking (Stead et al., 2004).

The concept of sustainable competitive advantage evolved in 1985 when Porter discussed the basic types of competitive strategies. According to Porter “A generic strategy does not lead to above-average performance unless it is sustainable vis-à-vis competitors. The sustainability of a generic strategy requires that a firm posses some barriers that make imitation of strategy difficult” (Porter, 1985).
SCA has certain characteristics; major among them is that SCA should not be easily duplicated by competitors. As such, marketing intangibles present a good source of SCA. Marketing intangibles (such as brand, relationships with stakeholders) are not easy to duplicate as they are closely related to the company and its environment.

Marketing intangibles are unique, durable, synergistic and implicit. This is why intangibles may lead to the realization of SCA.

Yet, the unique features and characteristics of marketing intangibles should not in any way deviate our attention from the problems that are usually associated with these intangible resources, namely.

1. Fear from zero value.
2. Obsession with tangible assets.
3. Difficulty of identifying the component that is responsible for expected or realized returns from intangibles.

Physical possession, for instance, is not possible with intangible assets, and as such these assets are difficult to control and manipulate. Besides, the market value as a measure of intangibles cannot be relied on by many managers as it is always subjected to zero value as was the case with Enron Company. Furthermore, intangibles are difficult to standardize in the same way as tangibles are.

Other problems are related to market failure and R&D. Intangibles tend to fluctuate in market value, and market failure comes as a result of lack of information. The market may not operate properly when the firm's market value is determined through shares' value. The firm's failure to make a balance between the costs of goods and services on the supply side, and what it receives on the demand side, may lead to market value. As far as R&D is concerned it is almost impossible to determine that part of portion of R&D that leads to future economic benefits (Baginski and Hassell, 2003). A firm is said to have a sustainable competitive advantage when it is creating more economic value than the marginal firm in its industry and when other firms are unable to duplicate the benefits of this strategy (Barney and Clark, 2007).

7. Conclusion and implications

It is quite evident from previous discussion that marketing intangibles are the new sources of value upon which the marketing function in modern firm is based. It has been shown that the market value of these intangibles constitutes the largest percentage of the firm's total market value. As such, there is an urgent need for developing tools and methodologies that measure and manage marketing intangibles in order to maximize the capabilities of modern firms. The value and importance of these intangibles are not the same in all organizations. Indeed, the process of developing the quality of intangibles in organizations requires developing weighted criteria according to nature of the organization's business domain and the extent to which such an organization relies on intangibles in order to be able to manage its intangibles with high degree of reliability and dependability.

In the realm of business today where competition is fierce and challenge are mounting, especially in terms of duplicating competitive advantage by others, it appears that marketing
intangibles, with their unique features, can be the surest source of sustainable competitive advantage; an advantage that is difficult to be duplicated by competitors. Modern companies are called upon today to develop their vision to their marketing intangibles, and improve methods that ensure the full utilization at such intangibles. We believe that the near future will witness more focus on marketing intangibles-based competitive advantage related mainly to trademark, reputation, and human capital.

References