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Analysis of state and privately owned enterprises in industrialized market economies leads to the identification of differences in objectives and strategy between the two enterprise types. A series of propositions is developed that contrasts the behavior of state and privately owned corporations.

MARKETING STRATEGY DIFFERENCES BETWEEN STATE AND PRIVATELY OWNED CORPORATIONS: AN EXPLORATORY ANALYSIS

Introduction

STATE owned enterprises comprise a large and growing sector of the economies of many industrialized western nations, frequently accounting for over 10% of GNP and significantly higher shares of total national investment.¹ However, despite their evident importance within the country and their increasing activity beyond its borders, for instance in air travel, steel, shipbuilding (Walters and Monsen 1979), helicopters (*Business Week* 1980), these en-

¹ Examples of contributions to GNP are Austria, 22%; Italy, 26%; United Kingdom, 11%. Further, new capital investment of state owned enterprises has approximated 30% of all new investment in the United Kingdom in recent years.

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terprises have been virtually ignored by researchers in marketing.

This paper *speculates* about differences that exist between major state and privately owned corporations in the development and execution of their marketing strategies. Three key strategic areas embracing which businesses to enter, which customers to target, and the marketing strategy decisions of product, price, distribution, and promotion are investigated, and a series of propositions developed. However, since a corporation's strategy is inexorably tied to its objectives, the objectives of state and privately owned enterprises are first examined. If differences exist, then different strategic behaviors would be expected.

Objectives

Privately owned corporations exist to make profits for their stockholders. Though profitability may be variously expressed, for example, dollar profit, return on investment, profit on sales, or earnings per share, and corporations may eschew the short

FIGURE 1
The Portfolio Framework

| | | MARKET SHARE | |
|---------------|------|--------------|-----|
| | | HIGH | LOW |
| MARKET GROWTH | HIGH | D | C |
| | LOW | B | A |

Private business units set either conventional profitability objectives or short run cash generation objectives as a prelude to market withdrawal. State owned corporations such as British Steel and British Shipbuilders, by contrast set a number of nonfinancially based objectives. National security dictates a long run survival objective, and political considerations may require the employment of large work forces, irrespective of national security issues. These objectives translate into short term sales maximization goals for maintenance of the customer base, work force expertise, and fixed assets. Management may strive for profitability, but the overarching importance of nonfinancial objectives frequently results in either direct government subsidy or financing of deficit operations.

Businesses or corporations with high market shares in low growth markets (Cell B) have, in contrast to their low share competitors, lower costs

lated experience increases. When market shares are relatively constant, this translates into a negative relationship between costs and market share; the higher the market share, the lower the costs. This relationship is supported for competitive structures involving private corporations in a given nation-state, but may be less strong in international competition involving state owned enterprises. Thus, wage rates differ substantially across nation-states. Diffusion of innovation in production technology across national boundaries is probably slower than within nations, with the result that enterprises in different nation-states are probably on different experience curves. If state owned corporations were created by a combination of numbers of previously uneconomic private corporations, they may not have achieved the cost positions expected for corporations of their size. Despite these potential problems with the experience curve concept, it is nevertheless employed here as a working framework.

and likely market dominance. Private business units may set long run cash generation objectives or seek high profits. State owned corporations, often legally created domestic monopolies, consist of two types, each with different objectives. State owned fiscal monopolies, such as tobacco in France and salt and camphor in Japan, whose products are frequently nonessential, exercise monopoly power to set high profit objectives. By contrast, state owned natural monopolies of essential services including electric and gas utilities, mail, telephone services, and rail transportation, set citizen service as a key objective. They use their power with care, since such decisions as service reductions or price rises, though necessary to eliminate deficits, may cause undesirable political consequences. Note the historic reluctance of national postal services, despite enormous deficits, to raise prices on mail delivery, and the painful reduction of rural train service in the United Kingdom in the 1960's.

Businesses or corporations with low market shares in high growth markets (Cell C) operate at cost disadvantages in new industries. Though investment restrictions may permit short run profits, survival and long run profits can be achieved only from strategic cash infusions, consequent improved cost positions, and market share increases. While private industry may choose either objective, state owned corporations typically exist in such markets for the long run. Governments involve themselves in these markets, i.e., computers (French and British), microelectronics (British), and airlines (numerous) because of their national importance, or because private industry has been unable or unwilling to invest the necessary resources for long run participation. National prestige may justify a state owned airline, while national security may dominate a decision on computers. Long run market participation, translated into sales growth plus state of the art technology, is the dominant objective for these state owned enterprises (Thompson & Hunter 1973, p. 106).

Businesses or corporations with high market share in high growth markets (Cell D) operate with cost advantages over their competitors. Significant short run profits are possible, but pursuit of short run market share objectives in anticipation of long run profitability and cash generation is frequently recommended. The few state owned enterprises in this cell are likely to set similar objectives to privately owned corporations. Long run participation and profit generation for citizen benefit are of most importance.

Proposition 1: Considerable differences exist between the objectives of state owned

enterprises and private corporations. However, these differences are not universal but relate to the portfolio positions of the businesses concerned.

Portfolio Analysis

Privately owned corporations frequently comprise business units in all four matrix cells. Ideal portfolios consist of high market share business. Low growth market participants (Cell B) provide cash over the long run, while in high growth markets (Cell D), businesses consume cash in the short and medium run but should provide cash when market growth slows. Selected businesses with low market shares in high growth markets (Cell C) may be desirable and complete the cash consumption, cash use balance, but low market share/low market growth businesses (Cell A) are not viewed favorably.

By contrast, most state owned enterprises operate in low growth markets (Cells A and B) since states more often become involved reactively in large mature industries, than proactively in small fast growing markets (Cells C and D). Thus, the employment and national security issues associated with mature and declining industries (Cell A), and the potential abuse of monopoly power in essential industries (Cell B) are stronger cues for nationalization than opportunities in growing industries. For instance, the major state industrial investments in the United Kingdom are in the steel, coal, ship-building, automobile, railway, gas, electrical, and postal industries, a pattern that is repeated elsewhere in Western Europe (*The Economist* 1978).

Proposition 2: Whereas private corporations tend to consist of businesses in all four matrix cells, state owned enterprises are more frequently involved in low growth businesses.

The portfolio framework then is a promising vehicle for studying the objectives and strategy of private and state owned corporations. However, for this purpose it is deficient in some respects. Not all private corporations use this framework to manage their businesses, though the proportion of Fortune 500 companies using some form of portfolio analysis is very high.⁴ Also, all state owned enterprises may not be classifiable in a mutually exclusive and exhaustive manner.⁵ Despite these deficiencies,

it will form the major basis for an examination of differences in strategy development between private and state owned enterprises.

Differences in Strategy Development

Which Businesses: Product Policy and Market Selection

The private corporation's choice of businesses can be explained in part by the portfolio framework. Viewed as a portfolio of cash consuming and generating units, the corporation overall should maintain a cash balance wherein each business is set objectives consistent with its market share, market growth, and anticipated competitive behavior.

Though explicit use of this normative framework is recent, historically it has been applied implicitly. Corporations with low growth products sought high growth products, those with high growth, cash consuming, products acquired or were acquired by cash rich companies, and failing low growth businesses were sold. Furthermore, notwithstanding this content free analysis, private corporations reduced their overall business risk by diversification into different product lines (Ansoff 1965). Rumelt (1974) has documented the widespread diversification of American business.

Many factors make it less likely that state owned enterprises are as diversified as private corporations. They typically have narrow mission definitions, often constrained by statute, and based on products or technology (e.g., steel, railroads, coal, gas, electricity, postal service). By contrast, large private corporations today have broader mission definitions such as being energy companies (coal, oil, gas) or serving the needs of middle income consumers (with many product lines based on many technologies). When state owned corporations try to diversify, private enterprise may raise the spectre of unfair competition and cause them to desist, especially if current operations are unprofitable. While private corporations may acquire businesses to obtain cash or reduce risk, for government portfolio elements these concerns are minimized. Government may constrain state owned enterprises from acquiring private businesses independently, and government acquisition of private companies

⁴Preliminary results from a study of corporate planning practice in over 100 Fortune 500 companies, conducted by the author, John U. Farley, and James Hulbert.

⁵State owned natural resource corporations present such a problem. When competing in international markets, profit (hard currency) is a key objective. However, its achievement often depends on uncontrollable market forces. High market share competitors (Cells

B and D) are more likely to achieve their objectives than smaller producers who may form international cartels, so that as a group, they may obtain the leverage that Cell B and D membership affords. State owned agricultural marketing boards fulfill a similar function for individual domestic producers, assuring sufficient profit for their products to continue producing them. They may, however, act like natural monopolies in the domestic marketplace if government prefers that sales are made below total cost.

is more difficult than a share transfer in the private sector. Since state owned corporations can only acquire whereas private corporations can both acquire and be acquired, potential diversification is less. Finally, most governments prefer a portfolio of independent entities rather than a supernational enterprise with vast concentrations of power.⁶

To the extent that state owned enterprises extend their business horizons, they are more likely to focus on highly related activities, such as an airline acquiring holiday hotels or a postal service incorporating telephone and telegraphic service, than less related activities.

Proposition 3: State owned corporations are less diverse in the markets they serve, the technologies they employ, and the products and services they produce than are private corporations.

Which Customers: Market Segmentation and Targeting

A most critical marketing decision is how to segment the market and which segments to target for effort. Both private and state owned corporations make these decisions consistent with their objectives. Since these objectives vary across cells in the portfolio matrix for each organization type, different segmentation strategies are expected.

One key difference is expected for low market share/low growth businesses (Cell A). Private corporations pursuing short run profit or cash generation objectives are expected to strive for operational efficiency and thus eliminate marginal customers. By contrast, state owned corporations pursuing employment maintenance and industry participation objectives should maximize sales volume and hence their customer base. Thus, customers of Swedish shipyards receive extremely liberal financing, while subsidies reaching 25% of cost accompany contracts with British shipbuilders.

Both private corporations and state fiscal monopolies with high market shares in low growth markets (Cell B) pursue similar profit maximizing and long run cash generation objectives and hence, similar market segmentation strategies. Though these likely involve larger customer bases than private business units in Cell A, certain unprofitable customer groups are typically ignored. By contrast, state owned natural monopolies, given their objective of citizen service, attempt to serve most potential customers regardless of cost and rely little on market segmentation. Such private and state owned

differences are the delivery service areas for freight by private carriers and the U.S. Postal Service in the United States, and passenger rail transportation coverage in the United States, France, and Great Britain. Since, in high growth markets (Cells C and D) differences in objectives between private and state owned enterprises are less pronounced, market segmentation strategies are more likely similar.

Low market share businesses (Cells A and C) are frequently unprofitable and struggling for survival. Assistance for such state owned corporations may derive from pressure by government on its agencies and enterprises to give them preferential treatment in procurement. Thus, state owned corporations in, for example, the computer, steel, and airline businesses may select government agencies and enterprises as prime customer targets.

Proposition 4: State owned corporations, especially those with low market shares in low growth markets (Cell A) and natural monopolies (Cell B) use market segmentation strategies less, and seek broader customer bases than private corporations.

Proposition 5: Government pressure on its agencies and enterprises in their procurement strategies results in preferential treatment for struggling state owned corporations. These corporations thus select arms of government as prime customer targets.

Which Strategies: The Marketing Mix

As the objectives of any private or state owned organization guide its market segmentation decisions, so together they are key elements in formulating the strategic elements of the marketing mix—product, price, promotion, and distribution. Differences in objectives and segmentation strategies between private and state owned corporations under various market share and market growth conditions result in a variety of marketing mix strategies. Each strategic element is considered in turn.

Product Strategy: As private corporations with low market share/low market growth businesses (Cell A), consistent with their profit and short term cash objectives, reduce their customer bases, so also they rationalize their product lines. They seek manufacturing economies by eliminating low demand products and concentrating on long production runs. By contrast, state owned corporations pursuing sales maximization through broad customer bases should have broad product lines.

State owned corporations in low market share—high market growth businesses (Cell C) pursuing long run participation objectives, should also have

⁶Not so in Italy, where enormous power is concentrated in IRI, ENI, and EFIM (Holland 1972), or in Spain with INI.

larger product lines than private corporations because of superior access to cash. One example is the willingness of state owned airlines such as Korean and Singapore Airlines, to operate more extensive flight schedules with lower overall load factors and extra service features than equivalent private carriers on certain routes.

Since private and state owned high market share/high growth businesses (Cell D), and high market share/low market growth businesses (when government fiscal monopolies, Cell B), have similar objectives, similar product strategies are expected in each cell. However, since state owned, natural monopolies (Cell B) have objectives of citizen service and broad customer targets, they should have broader product lines, often with unprofitable elements. For example, passenger rail service is more frequent when state owned than when privately owned.

Since they are controlled by government, state owned corporations often are directed to produce certain products or employ certain inputs in their production. Thus, in the 1960's, British European Airways was forced to purchase British built aircraft rather than the Boeings it desired, and in the 1970's, both Air France and British Airways were required to include Concorde in their fleets. Air France was made to use Charles de Gaulle Airport in Paris. Though a government may request similar compliance from private corporations, compulsion is unlikely (except in wartime) since it runs counter to most legal systems.

Governments may also favor a state owned enterprise by discriminating against its competition when it controls the provision of a customer benefit. Thus, British Airways is favored with landing rights at Heathrow Airport in London, while its privately owned competitors, British Caledonian and Laker Airways, and some foreign state owned airlines must use Gatwick Airport, which is smaller, further from London, and offers fewer connecting flights.

Proposition 6: State owned corporations have broader product lines than private corporations when market growth is low, both when market share is low (Cell A), and when the product is a natural monopoly (Cell B).

Proposition 7: In contrast to private corporations, state owned businesses are often-times compelled by their governments to produce products and use production inputs.

⁷ This proposition, formulated at the business unit level, should not be confused with proposition 3, which anticipated less overall diversification for state owned corporations.

Proposition 8: Governments favor state owned corporations over competitors by providing a privileged supply of customer benefits.

Pricing Strategy: Private corporations with low market share/low market growth businesses (Cell A) seeking profit and short term cash often raise prices if they can. In any event, in single business firms prices must exceed cost over the medium run; there is extreme pressure for this in diversified companies. Since in state owned corporations profitability is subjugated to sales maximization, price can be a key competitive weapon and may fall under average cost over the long run (see the shipbuilding example noted earlier). Similarly, low market share/high market growth state owned enterprises (Cell C) pursuing industry participation objectives are more likely to price competitively than private business, which would more likely withdraw (see the frequent breaching of IATA agreements on the North Atlantic route by many state airlines).

Since private and state owned corporations have similar objectives and market segmentation strategies when market share is high, both in high growth markets (Cell D) and low growth markets (Cell B) when the state business is a fiscal monopoly, their pricing strategies should be similar in each cell. By contrast, the pricing behavior of state owned natural monopolies (Cell B) differs from similar private businesses. Since these state businesses both set citizen service as a key objective and are highly visible, upward price changes are smaller and less frequent. Despite their monopoly advantage, since they need not be profitable, price may be below average cost over the long run. However, since they suffer greater profit and cash pressure, private businesses raise prices more frequently and by larger amounts, although if tightly regulated they may not always achieve desired price levels. The frequency and amount of price increase for a state owned natural monopoly varies inversely with the visibility of its product. Price rises for home telephones, a luxury in Western Europe, are more severe than for mail delivery. And, though the United States Postal Service is also circumspect in raising mail delivery rates, prices for postal money orders, used mainly by the inner city and rural poor, were recently raised sharply.

Proposition 9: State owned enterprises with low market shares price more aggressively than private corporations.

Proposition 10: State owned natural monopolies increase prices less steeply and less frequently than equivalent private corporations.

Proposition 11: When state owned natural monopolies raise prices, increases are more severe the less visible the product.

Promotion Strategy: Few major differences exist between private and state owned enterprises in the character of promotion strategy, and that deemed most appropriate is likely implemented irrespective of ownership. However, state owned enterprises offering products that enhance national prestige may face governmental constraints in their advertising copy strategies.

However, some budgetary differences, notable in low growth markets (Cells A and B) are expected. When market share is low (Cell A) state owned enterprises, consistent with their broader product lines and customer bases, should have larger promotional budgets than private businesses, which cut back their expenditures. By contrast, state owned natural monopolies have smaller advertising budgets because government is unwilling to allow the public perception that resources are wasted on advertising, when prices might otherwise be reduced. Budgetary differences between private and state owned enterprises are not expected for other entries in Cell B or for high growth market businesses (Cells C and D) because of the broad overlap of objectives.

Proposition 12: Other than occasional governmental constraints on advertising messages of state owned enterprises, few differences with privately owned corporations in the character of their promotional strategies exist.

Proposition 13: When market growth is low, low market share (Cell A) state owned enterprises have higher promotional budgets than private corporations.

Proposition 14: When market growth is low, high market share (Cell B) state owned natural monopolies have smaller promotional budgets than their private enterprise counterparts.

Distribution Strategy: Both private and state owned corporations likely employ those distribution methods deemed most appropriate regardless of their portfolio positions. However, state owned natural monopolies (Cell B) may spend highly for distribution where durable goods are necessary for service use, since this activity is largely free of the negative advertising connotations. Thus gas, electric, and telephone utilities have high budgets for showrooms where durables using their services are displayed, a strategy that private corporations,

free of advertising restrictions, are less likely to pursue.⁸

Proposition 15: State owned natural monopolies invest greater resources than comparable private corporations in showrooms to display goods that use their services.

Discussion

In this paper a classical view has been taken of an organization's strategic development. Objectives are set, business portfolios are chosen, target market segments are identified, and the marketing strategy elements of product, price, distribution, and promotion are chosen in turn.

It is proposed that while objectives for business units in private corporations are based largely on economic performance, state owned enterprises react in addition to various noneconomic pressures and set objectives accordingly. These noneconomic objectives arise in part from marketplace realities, which are also dominant in determining objectives for private business units.

This paper's major proposition is that only for business portfolio decisions, and matters of government fiat, are state and privately owned enterprises unambiguously different, solely based on ownership, without consideration of market conditions. State owned enterprises are less diversified than private corporations and are dominated by low growth market businesses.

The market segmentation and marketing mix decisions flow from the objectives. However, unambiguous statements about differences between private business units and state owned corporations are not possible, since the objectives are determined in part by market conditions. While it is suggested that under some conditions private and state-owned businesses have similar objectives and, therefore, should have similar marketing strategies, at other times different objectives and, hence, different marketing strategies predominate.

Thus, for example, low market share/low market growth private businesses (Cell A) with short term profit and cash objectives, are expected to cut back on customers' services and products offered, raise prices, and reduce promotional expenditures. By contrast, similarly placed state owned corporations with operational objectives of sales maximization extend their customer bases

⁸Highly regulated private utilities, allowed to earn a target ROI, may also invest heavily in showrooms, since their dollar profit can increase at constant ROI.

(P4), are expected to offer broader product lines (P6), price aggressively (P9), and spend more on promotion (P13).

The critical difference between the two organization types is that for private corporations, stockholder pressure leads to business unit profitability objectives or enterprise management within a portfolio framework. For state owned corporations, profit pressure is also present, but many additional pressures on government lead them to set objectives, choose customers, and develop strategy to optimize performance on dimensions other than profit.

Tests of propositions developed in this paper will prove more difficult than their generation. Thus, it will not be simple to achieve comparability on all conditions other than ownership (Aharoni 1978). Not only should market share and market growth conditions be equivalent, the same types of firm should be compared. Occasionally comparable firms may be found at one time in one nation-state (for example, Renault and Peugeot, Fiat and Alfa Romeo), though more often compromises are necessary; with time, by studying the same enterprise

pre- and post-state ownership (or pre- and post-private ownership), or with place, by studying comparable enterprises in different nation-states.

The underdeveloped nature of research on state owned enterprises suggests that initial studies should in general involve in-depth analysis of limited pairs of companies rather than large scale surveys. Clinical and archival methodologies are probably most appropriate, and a focus on comparable key decisions within enterprise pairs, similar to the Columbia series of decision process studies (Capon, Farley, and Hulbert 1975), offers a promising research model.

Finally, this paper should be viewed as a preliminary speculative attempt to conceptualize differences in strategy between private and state owned enterprises. It is short on documented evidence to support the propositions which are, of course, no stronger than the oft-criticized underlying framework. Nevertheless, if marketing researchers can build on this paper and design studies to test the propositions, greater understanding of the strategic behavior of both organizational types can be achieved.

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