

Increasing Market Orientation Increases Profit

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Introduction

Becoming market oriented may or may not improve profitability (Houston, 1986; and Jaworski & Kohl, 1993). It depends on what constitutes market orientation and the environment in which the company operates. Market turbulence and competitive intensity, as well as strategic planning and stakeholder contentment may also be factors that deliver profit to a corporation. (Ruekert, 1992, p 228)

When we look at the recent history of marketing, the 4 Ps were the chant of marketing professionals. Price, product, promotion and place were championed as the answer to meeting the need to convert manufacturers' product into cash. (Kotler, 1997, p20) This selling orientation has not been replaced; but rather, augmented with the development of integrated marketing concepts to meet consumers' needs and wants. Market orientation (for both goods and services) has become a major determinant in identifying successful and unsuccessful companies. Profit is one of the measures of that success.

Scope of the Evaluation

This paper evaluates the shift from a selling focus to a marketing concept for increasingly profitable companies. (Kotler, p20) It describes the three behavioural components of market orientation (Narver & Slater, p21) and relates those to the three sets of activities that practitioners use to be market oriented. (Jaworski & Kohl, p54)

It critically scrutinizes the links between market orientation and profitability, offering an opinion on the organizational factors critical for market orientation, including management vision. The paper also comments on the mechanisms and processes that a corporation could use to become more market oriented. (Narver & Slater, pp28-32; Ruekert, p234; and Levitt, pp12-17)

Definitions

While the marketing concept is diversely defined (Kohli and Jaworski, p2), ranging from 'a philosophy of business management' to an 'integrative and coordinated corporate state of mind'; market orientation is much more uniformly consistent in its description. Ruekert (1992, p228) lists three components:

- a. the obtaining and use of information from customers (similar to Kohli & Jaworski's '*intelligence generation*', or Narver & Slaters' '*customer orientation*');
- b. development of a strategy that meets customer needs (similarly: 'dissemination of information across departments', or elements of '*customer orientation and competitor orientation*'); and
- c. implementation of a responsive strategy to meet customers wants and needs; ('*organisation-wide responsiveness*' or '*interfunctional coordination*').

For our purposes market orientation can be considered to consist of three behavioural components: customer orientation, competitor orientation and interfunctional coordination - and two decision criteria: profitability and long-term focus. (Narver & Slater, p21) While there are a number of variations on this theme, as will be seen, the elements of the other literature can be incorporated into these categories.

Traditional, the 4 Ps marketing mix (product, price, promotion and place) p46 (Gummesson, 1991, p64) has been used by corporations that are not market-oriented, but use a production or selling paradigm to drive their profitability.

The Link between Market Orientation and Profitability

It is this difference between traditional 4Ps marketing and customer-oriented marketing that is purported to have had the greatest impact on the survivability and profitability of companies. Levitt (1970, p12) describes the results of a lack of market-orientation in his anecdotal description of the failure of the 'movie' industry and rail stocks. He equally uses the nylon and glass industries to highlight success in customer-focused organizations.

For survival (the ultimate profitability test) Levitt requires corporations to be market-orientated. The results of this market orientation delivers organisation-wide generation of market intelligence pertaining to current and future customer needs, dissemination of the intelligence across departments, and organisation wide responsiveness to it. (Jaworski & Kohli, 1993, p54)

The alternative to this is a guiding philosophy based on the **selling** of product. Kotler (1997) identifies three styles that hold sway in this paradigm. The 'production concept' relies on consumers buying products that are widely available at low prices. The focus here is on increasing production and hence taking advantage of the reduction in production cost and high volume to maintain profits.

The second selling focus is the 'product concept'. In this case, the consumer's buy product for the quality, performance or uniqueness. Research and development departments are a conspicuous feature of this type of company. Profits are made by selling products with innovative features and superior capability. It assumes that *someone* will want to buy the product that is designed.

Lastly, a common approach used to ensure profitability is the 'sales concept'. It holds that consumers, if left alone, will not buy enough of the company's product. Hence, the company must undertake aggressive selling and promotion efforts. It assumes that the consumer will continue to buy product even it is unsuitable and the 'selling concept' is most successful with goods that are unsought by the consumer.

Levitt (1970) highlights the fallacies of these three selling concepts by relating specific failures in their use. The unchallenged superiority of the product, or the exclusive and limited supply was not enough to retain profits over time. Equally, assuming the consumer will remain ignorant, and is short-memoried (therefore continuing to buy an unwanted and disappointing product) is an unrealistic assumption.

The alternative is to be market oriented. Kotler (1997, p19) suggests that there are two market-oriented concepts. The first is the 'marketing concept', which allows the organisation to achieve its organisational goals and maximise profit by determining and satisfying the needs and wants of target markets. (after Levit, 1970) The broader strategic view of organisational goals, not only includes profitability; but long term growth, sustainable returns, wealth creation for shareholders, customer happiness and employee satisfaction. (Ruekert, p227)

The 'marketing concept', although taking a long-term and wider projection for the corporation does not take the same broader view for the customer and society. 'Societal marketing', the second market-oriented perspective, builds the social and ethical considerations into a company's behaviour to ensure a balance between customer wants, company profits and public interest.

The two forms of market orientation have delivered sustainable profit to corporations. They have addressed: sales decline, slow growth, changing buying patterns, increasing competition and increasing marketing expenditure. The latter, with its social conscience, has yet to be extensively evaluated. (Kotler, 1997, p25)

Conversely, a manipulative approach to mass marketing using the 4Ps has not resulted in the desired increase in profitability; and is therefore 'fading' as dissatisfaction increases and its perceived relevance is lessened. (Gummerrson, 1991, p64)

Narver and Slater (1990) were able to link market orientation to the delivery of sustainable competitive advantage. Their argument then went on to link this competitive advantage with the profitability of corporations. Porter (1985) and Levitt (1970) provided evidence and examples to illustrate that market-orientation was the factor that delivered sustainable competitive advantage.

So, to precis the link between profit and market orientation; for a business to maximise its long-run profit it must create superior value for its customers. The method of ensuring customer satisfaction is to deliver to the customer what the customer wants. The way to meet the customers' requirement is to ask the customer what he/she wants, find out what the competitor is doing, and use the information across the entire organisation to create sustainable competitive

advantage through the value chain. There are a number of behavioural and organisational factors that allow this mutually beneficial relationship to be built between customers and market-oriented sellers.

Organizational Factors Critical for Market Orientation

As organisations become more market-oriented, their move from sales and product drivers to customer-satisfaction drivers pervades the entire management and production environments. Customer satisfaction becomes a strategic issue and hence affects: the structure of the company, the communication planning, development and training of staff, research and development, performance measures and rewards, and systems development.

The emergence of Total Quality Management (TQM) as a market-orientation tool is seen as a strategic issue rather than just referring to operational matters such as blueprints, procedures and technical issues. It is customer perceived quality; incorporating the internal capability of managing quality, customers needs and customer satisfaction. (Gummerson, p64) TQM is but one of a raft of organisational paradigms that can be used by organisations to obtain market orientation.

To evaluate the specific factors within TQM and many other systems that can be used for market-orientation it may be useful to use Kohli and Jaworski's framework of antecedents, moderators and consequences to explore the factors of market orientation.

Senior management must foster market orientation for it to be driven through the organisation. Tokenism will be apparent to junior managers and confuse the actual requirements of implementation. (Argyris, 1966) A marketing state of mind that is clearly communicated by the CEO and executive management ensures that the market intelligence that is collected is introduced to create innovated products and services to meet the evolving needs of the customer. This senior management buy-in allows others within the organisation to invest in their ideas and take appropriate market-oriented risks. Executive buy-in, is the start of the process of intelligence gathering, intelligence dissemination and responsiveness that allows a corporation to be market-oriented. (Kohli & Jaworski, 1990, p7)

Another of the antecedents is the interdepartmental dynamics. Where politics and power games are the order of the day, there is a tendency for corporations to become insular and operate as siloed departments. It restricts information flow; and breeds distrust, resentment and antagonism. The organisation becomes self-focused, inward looking and protective of the status quo rather than focusing on delivering the customer's wants. (Kohli & Jaworski, p10) One way of removing this pillaring is to centralise the control within the company.

Interestingly, centralisation is seen to inhibit the initial customer orientation and innovation stage; yet is supportive of the quick implementation of customer orientation once the initial work has been done. (Zaltman, Duncan and Holbek, in Kohli & Jaworski, 1990, p11)

Once the interdepartmental structure and leadership have been addressed, the third antecedent can be addressed. Some organisations fail to put in place systems that support the focus on the customer. Organisational systems that define the rules of behaviour for employees, talk about the definition of roles and specify the norms, sanctions and procedures are essential for market orientation. It is essential that every employee know that they are a member of the marketing department; in effect, a part-time marketer (Gummerson, 1991)

The reward systems must also support this market-orientation. Having a short-term immediate reward for sales will not deliver the long-term relationship required for sustained competitive advantage. Conversely, establishing a sense of pride in market-oriented achievements, rewarding the achievement of common goals, and ensuring a sense of belonging and worthwhile contribution when organisational goals are met reinforces market-orientation (Jaworski & Kohli, 1993, p57)

Gunnerson (1990) describes the need for network interaction, both as a market intelligence collection agent (customer and competitor intelligence (Narver & Slater, 1990)) and a factor in developing the long-term relationship required for market orientation. This relationship development forms part of the systems required for effective market-orientation. Kotler (1997, p12) broadens this by stating that these long term relationships must include an element of trust with customers, employees, ad agencies, university scientists, distributors, and suppliers; and may include social ties, technical ties, and economic dependencies.

Other factors that moderate business performance include market turbulence. Low market turbulence means that once a customer group's needs are established little need be done to reevaluate the need. The more turbulence in the market, the more focused must be the orientation toward the customer to ensure that changing needs are met.

With the antecedents and moderators under control, a market-oriented company will have aligned their intelligence generation, research and development, manufacturing gear-up, horizontal communication and organisational systems to deliver the desired customer response, business performance and employee response. (Kohli & Jaworski, p10; Porter, Allen and Angel, 1981)

Narver and Slater's study of market orientation (1990) controlled for a range of other factors likely to affect the business performance of a corporation. They included buyer power, supplier power, seller concentration, new competition, market growth, rate of technological change, and comparative size of the competition. The three determining factors for market orientation were confirmed as customer orientation, competitor orientation, and interfunctional coordination.

How Does An Organization Become More Market Oriented?

Rukert (1992) created a list of behaviours that allowed an organisation to become more market oriented. Gummesson (1991) emphasized the role of

interfunctional coordination across the entire company to ensure that each employee supported the notion that everyone was a part-time ambassador for the company, and was also a market-focused part of the total enterprise.

To derive greater profit was not just a case of selling more or producing more at a lower cost. Rather, the market oriented corporation had to start its market focus at the highest level. Levitt (1970) highlighted this when he wrote about the delusions of the executives at the top of the railroads, when their narrow definitions of their businesses and lack of market-focus led to obsolescence and reduced profitability. Therefore, strategic planning with the clear intention of satisfy the identified market is essential for an improvement in market orientation.

The strategic orientation of the company should be developed using market research, putting in place specific plans for each segment of the marketplace. The emphasis must be on market position rather than short-term financial performance, determining product price by customer perceived value rather than a cost-plus perspective. This development of market-oriented strategy should also be accompanied by investment in building market position and the organisational emphasis should be on markets rather than products. (Ruekert, 1992, p234)

In terms of interfunctional coordination, the salesforce must have information on customers and competitors. At the same time as selling, salespeople will obtain ideas from customers on improvements to the product to feed back to R& D. They will also value the customers input into new products. (Gummesson, 1991; Ruekert, 1992)

In a global sense, the customer must occupy the central position within the company. As an example, Woolworth's over the last ten years has become a major force in retailing coming back from a very weak position. The Board of Directors has, for the entire time, had a vacant chair at Board meetings with the clear direction that that chair represents the customer. Customer satisfaction and adding value to customer's existence is the most important focus in delivering sustainable advantage. (Kotler, 1997, p 26)

Conclusion

Market orientation improves the profitability of for-profit organisations and improves the survivability of non-profit organisations. It does this by ensuring the long-term relationship with the customer, ensuring the customers needs are met and that the customers wants are satisfied. (Houston, 1986; and Jaworski & Kohl, 1993). Market turbulence and competitive intensity make the need for market orientation even more essential, while the buy-in at executive management level is important for the carry-through across the entire organisation.

The principle factors of market orientation are customer orientation, competitor orientation, and interfunctional coordination. All staff, regardless of their function within the company are part-time marketers, ensuring delivery of present and /or future customer wants. Sharing of information about customers

and competitors is essential with the removal of political and departmental limitations essential. The interfunctional coordination relies on the correct structure of the company (with the customer as the focus), the communication planning, development and training of staff, research and development, performance measures and rewards, and systems development supporting the customer-oriented outcome.

Market orientation is the major determinant in creating sustainable competitive advantage and hence long term profit. (Levitt, 1970)

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