Market-Driven Strategy
Chapter 1

Market-Driven Strategy

The market and competitive challenges confronting executives around the world are complex and rapidly changing. Market and industry boundaries are often difficult to define because of the entry of new and unfamiliar forms of competition. Customers’ demands for superior value from the products they purchase are unprecedented, as they become yet more knowledgeable about products (goods and services) and more sophisticated in the judgments they make. External influences from diverse pressure groups and lobbyists have escalated dramatically in country after country. Major change initiatives are underway in industries ranging from aerospace to telecommunications. Innovative business models that question the traditional roles of an industry are defining a new agenda for business and marketing strategy development. Companies are adopting market-driven strategies guided by the logic that all business strategy decisions should start with a clear understanding of markets, customers, and competitors. Increasingly it is clear that enhancements in customer value provide a primary route to achieving superior shareholder value.

Consider, for example, Southwest Airlines’ market-driven strategy that has achieved a strong market position for the U.S. domestic carrier. The airline’s growth and financial performance are impressive. Although Southwest is the fourth largest U.S. airline, its market capitalization is greater than the total capitalization of AMR (American Airlines), Delta Airlines, and UAL Corp. Southwest’s revenues will approach $7.5 billion in 2002, compared with $4.2 billion in 1998. Net profits also are displaying strong records during this five-year period. Southwest uses a point-to-point route system rather than the hub-and-spoke design used by many airlines. The airline offers services to 57 cities in 29 states, with the average trip being about 500 miles. The carrier’s customer value proposition consists of low fares and limited services (no meals). Nonetheless, major emphasis throughout the organization is placed on building a loyal customer base. Operating costs are kept low by using only Boeing 737 aircraft, minimizing the time span from landing to departure, and developing strong customer loyalty. The company continues to grow by expanding its point-to-point route network.

Southwest Airlines illustrates several important characteristics of market-driven organizations. The management team has built a culture and developed processes for being market oriented. Southwest’s value proposition centers on offering customers on-time air travel
services at prices which are so competitive that Southwest has grown the short haul air travel market by attracting passengers from road travel. Its distinctive capability is the closely linked network of activities that enable the point-to-point system to operate very efficiently, and an impressive understanding of customer needs and priorities. Management has developed a team-oriented organization with a clear focus on customer value. The airline serves business and consumer customers who want low-cost, reliable air travel services.

We begin with a discussion of market-driven strategy and its pivotal role in designing and implementing business and marketing strategies. Then we look closely at the importance and process of becoming market oriented. Next, we examine the capabilities of market-driven organizations, followed by a discussion of creating value for customers. Finally, we look at the initiatives that are necessary to become market driven.

Market-Driven Strategy

The underlying logic of market-driven strategy is that the market and the customers that form the market should be the starting point in business strategy formulation. "Considerable progress has been made in identifying market-driven businesses, understanding what they do, and measuring the bottom-line consequences of their orientation to their markets." Importantly, market-driven strategy provides a company-wide perspective, which mandates more effective integration of all activities that impact on customer value. We examine the characteristics of market-driven strategy and discuss several issues associated with adopting that strategy.

Characteristics of Market-Driven Strategies

A key advantage of becoming market oriented is gaining an understanding of the market and how it is likely to change in the future. This knowledge provides the foundation for designing market-driven strategies. Developing this vision about the market requires obtaining information about customers, competitors, and markets; viewing the information from a total business perspective; deciding how to deliver superior customer value; and taking action to provide value to customers. Importantly, there is support from research findings and business practice indicating that market-driven strategies enhance business performance.

The major characteristics of market-driven strategies are shown in Exhibit 1–1. The organization’s market orientation helps management identify customers whose value requirements provide the best match with the organization’s distinctive capabilities. Successful market-driven strategy design and implementation should lead to superior performance in an organization. Dell Computer’s successful market-driven strategy is illustrative. Dell’s value-chain strategy combines technologies from Intel, IBM, and Microsoft to serve customers efficiently and with state-of-the-art computer technology. Dell is able to introduce next generation products faster than its competitors can because its market-driven strategy is developed around a direct sales, built-to-order business design. This distinctive process capability is supported by effective supplier, distribution, and service partnerships with other companies. Dell’s management understands its customers since company personnel are in close contact with buyers who make inquiries and place orders. Not only does Dell process some 500,000 telephone calls each week, but 65,000 corporate customers are linked to Dell through their own Dell Premier Pages on the Internet, and Dell’s Internet-based sales reached $50 million a day in 2000. Indeed, in 2001, Dell became leader in global market share.
We examine each market-driven characteristic in the remainder of the chapter. A more complete discussion of relevant strategy concepts, methods, and applications is provided throughout the book, beginning with the marketing strategy framework developed in Chapter 2.

**Why Pursue a Market-Driven Strategy?**

While our understanding of market-driven strategy is far from complete, the available evidence indicates a strong supporting logic for pursuing this type of strategy. Importantly, the characteristics shown in Exhibit 1–1 offer guidelines for strategy development rather than advocating a particular strategy. Market-driven strategy needs to be linked to the organization’s unique competitive strategy.

The achievements of companies that display market-driven characteristics are impressive. Examples include Dell Computer, Southwest Airlines, Tiffany & Company, and Wal-Mart. Many other companies are in the process of developing market-driven strategies. We examine successful and unsuccessful strategies of several companies throughout the book to illustrate the underlying strategy concepts.

The development of a market-driven strategy is not a short-term endeavor. A considerable amount of effort is necessary to build a market-driven organizational culture and processes. Also, the methods of measuring progress extend beyond short-term measures of financial performance. While this performance information is important, it may not indicate whether progress is being made in developing a successful market-driven strategy. In response to this need, "balanced scorecard" measures are being adopted by an increasing number of companies. The scorecard approach includes the use of customer, learning and growth, and internal business process measures as well as financial performance measures. An underlying principle is that short-term cost savings and profit enhancements may undermine the achievement of strategic goals, and the building of superior customer value in particular.

**Becoming Market Oriented**

A market orientation is a business perspective that makes the customer the focal point of a company’s total operations. "A business is market-oriented when its culture is systematically and entirely committed to the continuous creation of superior customer value."
Importantly, achieving a market orientation involves the use of superior organizational skills in understanding and satisfying customers.8

The Strategy Feature describes the SMH Group’s value proposition strategy to revive the Swiss watch-making industry. At the core of the strategy is management’s very perceptive understanding of customers and their value requirements.

Becoming market-oriented requires the involvement and support of the entire workforce. The organization must monitor rapidly changing customer needs and wants, determine the impact of those changes on customer satisfaction, increase the rate of product innovation, and implement strategies that build the organization’s competitive advantage.

We now describe the characteristics and features of market orientation and discuss several issues associated with becoming market oriented.

Characteristics of Market Orientation

A market-oriented organization continuously gathers information about customers, competitors, and markets; views that information from a total business perspective; decides how to deliver superior customer value; and takes actions to provide value to customers (Exhibit 1–2). An organization that is market oriented has both a culture committed to customer value and a process of creating superior value for buyers. Market orientation requires a customer focus, intelligence about competitors, and cross-functional cooperation and involvement. This initiative extends beyond the marketing function in an organization.

Customer Focus

The marketing concept has proposed a customer focus for half a century, yet until the 1990s that emphasis had a limited impact on managers as a basis for managing a business.8 There are many similarities between the marketing concept and market orientation, although the marketing concept implies a functional (marketing) emphasis. The important difference is that market orientation is more than a philosophy since it consists of a process for delivering customer value. The marketing concept advocates starting with customer needs and wants, deciding which needs to meet, and involving the entire organization in the process of satisfying customers. The market-oriented organization understands customers’ prefer-
ences and requirements and effectively deploys the skills and resources of the entire organization to satisfy customers. Becoming customer oriented requires finding out what values buyers want to help them satisfy their purchasing objectives. Buyer’s decisions are based on the attributes and features of the product that offer the best value for the buyer’s use situation. The buyer’s experience in using the product is compared to his or her expectations to determine customer satisfaction.10

Dell Computer’s direct contact with its buyers is an important information source for guiding actions to provide superior customer value. The direct, built-to-order process used by Dell avoids the stocking of computers that may not contain state-of-the-art technology. Also, each computer contains the specific features requested by the buyer. Competitors of Dell that market their computers through distributors and retailers have higher costs because price reductions in purchased components (e.g., chips) cannot be utilized for computers in inventory.

Competitor Intelligence
A market-oriented organization recognizes the importance of understanding its competition as well as the customer:

The key questions are which competitors, and what technologies, and whether target customers perceive them as alternate satisfiers. Superior value requires that the seller identify and understand the principal competitors’ short-term strengths and weaknesses and long-term capabilities and strategies.11

Failure to identify and respond to competitive threats can create serious consequences for a company. For example, Western Union did not define its competitive area as telecommunication, concentrating instead on telegraph services, and eventually the 100-year-old company was outflanked by fax technology. Had Western Union been market oriented, its management might have better understood the changes taking place, recognized the competitive threat, and developed strategies to counter that threat.

Cross-Functional Coordination
Market-oriented companies are effective in getting all business functions to work together to provide superior customer value. These organizations are successful in removing the walls between business functions—marketing talks with manufacturing and finance. Cross-functional teamwork guides the entire organization toward providing superior customer value.
Performance Implications.
Companies that are market oriented begin strategic analysis with a penetrating view of the market and the competition. Moreover, an expanding body of research findings points to a strong relationship between market orientation and superior performance. Companies that are market oriented display favorable organizational performance compared with companies that are not market oriented. The positive market orientation/performance relationship has been found in several U.S. and European studies.

Becoming a Market-Oriented Organization
As shown in Exhibit 1–2, becoming a market-oriented company involves several interrelated requirements. The major activities include information acquisition, interfunctional assessment, shared diagnosis, and coordinated action. The objective is to deliver superior customer value. We examine the parts of Exhibit 1–2, beginning with superior customer value.

Superior Customer Value
Customer value is the trade-off of benefits against the costs involved in acquiring a product. The bundle of benefits includes the product, the supporting services, the personnel involved in the purchase and use experience, and the perceived image of the product. The costs include the price of purchase, the time and energy involved, and the psychic costs (e.g., perceived risk).

Indeed, the search for new areas of customer value underpins many impressive success stories. Starbucks, for example, has grown from a Seattle-based coffee house into a profitable $1.3 billion business operating 2,500 outlets and many more concessions worldwide. By creating a new consumption experience for consumers, as well as very fine coffee, Starbucks can charge high prices for its coffee and snacks. The company has created and dominated a new area of customer value. On the other hand, failing to understand what drives customer value can be extremely dangerous. Wal-Mart is the world’s largest retailer and has an incredible record of growth and financial performance. Nonetheless, in entering the German marketplace, Wal-Mart transferred many of its famed approaches to customer service—the “ten foot rule” (a customer coming within ten feet of an employee must be offered help), “greeters” at the store entrance, mandatory bag-packing—and to employee motivation—e.g., the Wal-Mart song. German consumers regard these approaches to customer service as invasive and highly unattractive, while employees are reportedly hiding in the bathrooms to avoid singing the company song. By 2001, Wal-Mart had come at the bottom in the annual German survey of customer satisfaction with stores, and losses were running at around $150 million. Achieving superior customer value requires superior understanding of what creates value for customers.

Information Acquisition
“A company can be market-oriented only if it completely understands its markets and the people who decide whether to buy its products or services.” Gaining these insights requires proactive information gathering and analysis. In many instances a wealth of information is available in company records, information systems, and employees. The challenge is to develop an effective approach to gathering relevant information that involves the participation of all business functions, not just sales and marketing personnel.

A key part of information acquisition is learning from experience. Learning organizations encourage open-minded inquiry, widespread information dissemination, and the use
of mutually informed managers’ visions about the current market and how it is likely to change in the future. For example, Intuit’s obsession with customer service gave its Quicken design team revealing insights into the problems users encounter with the Quicken personal finance software and the preferences users have concerning software features. Making the Quicken software simple to use requires sensing market needs, extensive use testing, customer feedback, and continuous product improvement.

Cross-Functional Assessment

Zara, the Spanish apparel retailer, has overcome the hurdles of getting people from different functions to share information about the market and work together to develop innovative products. Delivering superior customer value involves all business functions. Zara designs and produces some 12,000 apparel styles each year, and each style is available in stores in only 4 weeks. The short time span between new ideas and their transformation into store offerings is impressive. (See accompanying Zara photograph). Zara’s shared vision about customers and competition guides the design process. Information technology plays a vital role in Zara’s success. Zara’s business design and operations are described in the Cross-Functional Feature.
The last part of becoming market oriented is deciding what actions to take to provide superior customer value. This involves shared discussions among company personnel and an analysis of trade-offs in meeting customer needs. An effective cross-functional team approach to decision making facilitates diagnosis and coordinated action. Zara offers an interesting look at how these processes work in that company. The speed of new product introduction points to the importance of all business functions working together toward a common purpose.

Becoming market oriented often requires making major changes in the culture, processes, and structure of the traditional pyramid-type organization that typically is structured into functional units. Nonetheless, mounting evidence suggests that the market-oriented organization has an important competitive advantage in providing superior customer value and achieving superior performance.

Cross-Functional Feature

Zara Moves New Clothing Designs from Concept to Store Rack in Two Weeks

The Zara boutique is buzzing on Calle Real in the rainy northern Spanish city of La Coruña. Customers are buying out the newly designed red tank tops and black blazers, but they’re pining for beige and bright purple ones, too. Most fashion companies would need months to retool and restock. Not Zara. Every Saturday the store manager pulls out a Casio handheld computer and types in orders for new clothes. They arrive on Monday.

Zara is the Dell Computer Inc. of the fashion industry. The Spanish star is using the Web to churn out sophisticated fashion at budget prices, turning the industry’s traditional fashion cycle completely on its well-coiffed head. Now, a new design can go from pattern to store in two weeks, rather than six months. Founded two decades ago in a remote, impoverished area of the Iberian peninsula, Zara’s privately held parent, Inditex, has become a flourishing $2 billion company with 924 stores in 31 countries.

Traditionally, fashion collections are designed only four times a year. And major retailers outsource most of their production to low-cost subcontractors in far-off developing countries such as China. Zara ignores the old logic. For quick turnaround, it makes some two-thirds of its clothes in a company-owned facility in Spain, restocks stores around the globe twice a week, and continually redesigns its clothes—an astounding 12,000 different designs a year.

Here’s how Zara does it: A store manager sends in a new idea to La Coruña headquarters. The 200-plus designers decide if it’s appealing, then come up with specs. The design is scanned into a computer and zapped to production computers in manufacturing, which cut the material needed to be assembled into clothes by outside workshops. The manufacturing plant is futuristic, too, stuffed with huge clothes-cutting machines that are run by a handful of technicians in a laboratory-style computer-control center.

Eventually, Zara will begin using the Web to sell clothes since finding new store sites is becoming more difficult. In America, e-tailing could boost its low profile. “Americans have less reluctance to buy online than here in Southern Europe,” says Inditex CEO José María Castellano. Thanks to Zara, Americans could begin to associate Spain with Internet innovation as well as stylish tank tops.

—William Echikson


Shared Diagnosis and Action

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Distinctive Capabilities

Leveraging the organization’s distinctive capabilities (competencies) is a vital part of market-driven strategy (Exhibit 1–1). "Capabilities are complex bundles of skills and accumulated knowledge, exercised through organizational processes, that enable firms to coordinate activities and make use of their assets." The major components of capabilities are shown in Exhibit 1–3, using the new product development process to illustrate each component. Note, for example, the similarities between Exhibit 1–3 and Zara’s new product development process described in the Cross-Functional Feature. The new product development process applies the skills of the design team and benefits from the team’s accumulated knowledge. Coordination of activities across business functions during new product development is facilitated by information technology. For example, Zara’s product designs take into account manufacturing requirements as well as offering high-fashion products. Assets such as Zara’s strong brand image help launch new products.

It is apparent from Exhibit 1–3 that an organization’s capabilities are not a particular business function, asset, or individual but instead comprise major processes of the organization. Dell Computer’s direct-to-the-customer, built-to-order process is a distinctive capability that operates using Dell’s skills and accumulated knowledge in coordinating the activities that comprise the process and benefiting from Dell’s strong brand image in the personal computer market. The outcome of the process is the delivery of superior customer value to the organizations that purchase Dell’s computers (over 90 percent of Dell’s buyers are businesses rather than consumers).

Organizational capabilities and organizational processes are closely related:

1. It is the capability that enables the activities in a business process to be carried out. The business will have as many processes as are necessary to carry out the natural business activities defined by the stage in the value chain and the key success factors in the market.

2. Processes are not the same across industries or for all businesses in the same industry. For example, Dell Computer and Compaq Computer have different processes, and the processes of Dell Computer differ from those of Wal-Mart. Compared to the retailer, Dell is at an earlier stage in the value chain that links suppliers, manufacturers, distributors/retailers, and end-users of goods and services. Moreover, unlike Wal-Mart, Dell produces to order and is in direct contact with its customers.
We now look more closely at the distinctive capabilities of an organization, followed by a discussion of different types of capabilities. Then we examine the relationship between capabilities and customer value.

### Identifying Distinctive Capabilities

Understanding the organization’s distinctive capabilities and knowing how they relate to customers’ value requirements are important considerations in marketing strategy design. It is essential that management place a company’s strategic focus on the company’s distinctive capabilities. These capabilities may enable the organization to compete in new markets, provide significant value to customers, and create market-entry barriers to potential competitors. For example, Hewlett-Packard (H-P) has a strong capability in ink jet printer technology which enabled the company to become the world leader in computer printers. H-P leveraged this capability to develop the ink jet fax through a strategic alliance with a Japanese partner which contributed a distinctive capability in fax technology.

Examples of distinctive capabilities in four companies are shown in Exhibit 1–4. Capabilities are important factors in shaping corporate and business strategies. Many companies are deciding what they do best, concentrating their strategies on their distinctive capabilities. For example, in the late 1990s Tandy Corporation, after unsuccessful ventures into computer manufacturing, computer retailing, megastore electronics, and appliance retailing, exited from those businesses and concentrated its growth initiatives on the core capabilities of the Radio Shack retail chain. The corporation’s name was changed to Radio Shack to provide brand focus.

A distinctive capability (1) offers a disproportionate (higher) contribution to superior customer value or (2) enables an organization to deliver value to customers in a substantially more cost-effective manner. Southwest Airlines’ distinctive capability is its business design, which enables the carrier to offer travelers low fares in combination with satisfactory services.

An important issue is deciding which capability to emphasize. How, for example, did Wal-Mart’s management decide to invest heavily to build its information and logistics system? Why did Dell choose the direct sales, built-to-order business design? What supporting logic led Hewlett-Packard to invest heavily in ink jet technology and position its printers against dot matrix printers rather than laser printers? These choices are not always

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**EXHIBIT 1–4**

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apparent and may involve developing new capabilities that offer the potential of being distinctive. In other situations the organization may pursue strategic initiatives that become distinctive over time.

The starting point in deciding which capability to pursue is identifying and evaluating the organization’s existing capabilities. The three characteristics shown in Exhibit 1–5 are useful in identifying distinctive capabilities. A capability may not be applicable to multiple competitive situations (e.g., Honda’s engine and drive train technology for various product applications), but to be sustainable it needs to be superior to the competition and difficult to duplicate. Multiple competitive situation applications add additional strength to the capability.

Types of Capabilities

Classifying the organization’s capabilities is useful in identifying distinctive capabilities. As shown in Exhibit 1–6, one method of classification is to determine whether processes operate from outside the business to inside, operate from the inside out, or are spanning processes. The processes shown are illustrative rather than providing a complete enumeration of processes. Moreover, since a company may have unique capabilities, it is not feasible to identify a generic inventory of processes.

The process capabilities shown in Exhibit 1–6 differ in purpose and focus. The outside-in processes connect the organization to the external environment, providing market feedback and forging external relationships. The inside-out processes are the activities necessary to satisfy customer requirements (e.g., manufacturing/operations). The outside-in processes play a key role in offering direction for the spanning and inside-out capabilities, which respond to the customer needs and requirements identified by the outside-in processes. Market sensing, customer linking, channel bonding (e.g., manufacturer/retailer relationships), and technology monitoring supply vital information for new product opportunities, service requirements, and competitive threats.

This process view of capabilities highlights the interrelated nature of organizational processes and points to several important issues:

- The market-driven organization has a clear external focus.
- Capabilities typically span several business functions and involve teams of people.
- Processes need to be clearly defined and have identifiable owners.
- Information should be shared with all process participants.
- Processes are interconnected to other processes, and management needs to coordinate the linkages.
While many companies are structured according to business functions, an increasing number are placing emphasis on cross-functional processes. As companies alter their traditional organizational hierarchies, they may retain functional groupings (e.g., engineering, finance, marketing) while placing emphasis on processes like those shown in Exhibit 1–6.

**Value and Capabilities**

Value for buyers consists of the benefits and costs resulting from the purchase and use of products. Value is perceived by the buyer. Superior value occurs when there are positive net benefits. A company needs to identify value opportunities that match its distinctive capabilities. A market-oriented company uses its market sensing processes, shared diagnosis, and cross-functional decision making to identify and take advantage of superior value opportunities. Management must determine where and how it can offer superior value, directing those capabilities to customer groups (market segments) in a way that results in a favorable competency/value match. Dell Computer found this match by concentrating on meeting the needs of business buyers rather than trying to serve all personal computer buyers.

**Creating Value for Customers**

"Customer value is the outcome of a process that begins with a business strategy anchored in a deep understanding of customer needs." The creation of customer value received a lot of attention from managers during the 1990s. This interest was the result of companies’ experience with total quality management, intense competition, and the increasing demands of customers. Several benefits of value initiatives reported by executives in a study conducted by the Conference Board are shown in Exhibit 1–7. The purpose of the study was to determine whether companies were taking actions to improve customer value and to examine their assessment of the results (benefits) of the value initiatives. Exhibit 1–7 offers positive evidence of companies’ proactive efforts to increase customer value. About half the respondents were part of the quality function, nearly one-third were from marketing, and the rest were from other business functions. About 80 percent of the participating companies were from the United States, and the remainder were from Europe.

We take a closer look at the concept of customer value and consider how value is generated. Then we look at the progress being made in the value initiatives of companies.
Customer Value

Offering superior customer value is relevant to governments as well as business firms. An interesting Web initiative by the Singapore government is described in the E-Business Feature. Recognizing the opportunity to increase the customer value offered to Singapore citizens, the government invested more than $600 million to simplify the process of obtaining approvals by citizens using online contact. The government benefits through increased citizen participation and reduced operating costs.

Customers form value expectations and decide to purchase goods and services based on their perceptions of products’ benefits less the total costs incurred. Customer satisfaction indicates how well the product use experience compares to the buyer’s value expectations.

Superior customer value results from a very favorable use experience compared to expectations and the value offerings of competitors.

Providing Value to Customers

As was discussed earlier, the organization’s distinctive capabilities are used to deliver value by differentiating the product offer, offering lower prices relative to competing brands, or providing a combination of lower cost and differentiation. Deciding which avenue to follow requires matching capabilities to the best value opportunities.

Consider, for example, Hewlett-Packard’s very successful ink jet printer strategy, which positioned the printer as an alternative to dot matrix technology. H-P’s management decided not to target laser printers by offering the ink jet as a lower-cost option. The dot matrix strategy provided H-P with a much larger market opportunity. H-P’s product management team’s vision about the market was correct in that dot matrix users would soon become dissatisfied with the quality and capabilities of their printers.

Value Initiatives

As was shown in Exhibit 1–7 the Conference Board survey indicates that a majority of companies consider value initiatives to be producing positive results. The companies participating in the study report strong progress in the following areas:

- Analyzing customer needs and instilling customer-focused behavior in frontline employees (70 percent or more);
- Analyzing target markets and boosting service quality (60 to 70 percent);
• Using cross-functional teams to develop products and services (about half);
• Achieving operational excellence (about half); and
• Innovating (about half).26

Twenty-five of the companies that have completed the implementation of a value initiative report major progress in instilling customer-focused behavior for employees who are not in front-line contact with customers.27 These companies indicate stronger performance in expanding market share, innovation, and retaining customers when compared with companies which are beginning value initiatives. The companies which have value initiatives under way are becoming market oriented and leveraging their distinctive capabilities.

Nonetheless, there is an important distinction between value and innovation. An Economist Intelligence Unit Report in 1999 contained interviews with executives from many leading companies throughout the world: “What counts, conclude the participants, is value innovation. This is defined as creating new value propositions . . . that lead to increased customer satisfaction, loyalty and—ultimately—sustainable, profitable growth. Market leaders are just that—pioneers.”28

There is growing support from such studies for the benefits of market-driven strategy.

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E-Business Feature

Cutting Red Tape in Singapore

When Agnes Tan applied for a permit to open a sandwich shop in Singapore’s financial district, she had to wait in three different 90-minute lines just to get her floor plan approved. Then, surfing the Web one night, the 27-year-old accountant stumbled on Singapore’s "eGovernment" Internet portals. There, she discovered, she could get the rest of the required permits—for everything from kitchen equipment to registering employees for Social Security—from her desk. “Without this,” says Tan, “it’s a nightmare.”

Such services have put Singapore at the forefront of public-sector efforts to cut red tape using the Web. Since 1997, Singapore has invested more than $600 million to move its citizens onto the Net and out of lines. Residents can now go online to take care of dozens of tasks, such as registering births or signing up for military duty. Singapore is “ahead of the curve” in taking advantage of the Web, says Richard S. Seline, electronic-government practice manager at consultant Arthur Andersen in Washington.

The initiative is paying off in less frustration and in more dollars. Some 30% of Singapore taxpayers filed their returns online this year—saving nearly $600,000 says Yong Ying-l, chief executive of the InfoComm Development Authority, which oversees the migration to the Net. While Yong won’t say how much Singapore has saved from its Web sites, residents have completed 1.5 million school registrations, trademark applications, and similar bureaucratic errands there over the past year.

Granted, it’s a lot easier to be an efficient e-government in a country with just 4 million residents living in an area the size of Manhattan. But for residents such as Tan, letting a mouse do the walking keeps her out of lines and back where she wants to be—serving up sandwiches.

—Michael Shari

Becoming Market Driven

The discussion so far points to the importance of becoming market oriented, leveraging distinctive capabilities, and finding a good match between customers' value requirements and the organization's capabilities. The motivation for these actions is that they should lead to superior organizational performance. Moreover, research evidence indicates that these characteristics are present in market-driven organizations, which display higher performance than do their counterparts that are not market driven.

A market-driven organization must identify which capabilities to develop and which investment commitments to make. These decisions benefit from a shared understanding of the industry structure, the needs of the target customer segments, the positional advantages being sought, and the trends in the environment.29

A major objective of this book is developing the concepts and processes for gaining a shared understanding of customers and how to satisfy their needs and preferences by favorably positioning the organization’s value offer.

Market Sensing and Customer Linking Capabilities

Market orientation research, evolving business strategy paradigms, and the Conference Board study all point to the importance of market sensing and customer linking capabilities in achieving successful market-driven strategies.30

Market Sensing Capabilities

Market-driven companies have effective processes for learning about their markets. Sensing involves more than collecting information. It must be shared across functions and interpreted to determine what actions need to be initiated (Exhibit 1–2).

Developing an effective market sensing capability is not a simple task. However, the penalties of inferior market sensing may be substantial. Premier manufacturer of fine china dinner plates, Royal Doulton, has seen its sales declining at 20 percent a year and its market value reduced by two-thirds, as it failed to understand that the consumer trend toward informal eating has greatly reduced the size of the market for its formal dinnerware.

To be effective, various information sources must be identified, and processes must be developed to collect and analyze the information. Information technology plays a vital role in market sensing activities. Different business functions have access to useful information and need to be involved in market sensing activities.

Customer Linking Capabilities

There is substantial evidence that creating and maintaining close relationships with customers are important in market-driven strategies.31 These relationships offer advantages to both buyer and seller through information sharing and collaboration. Customer linking also reduces the possibility of a customer shifting to another supplier. Customers are valuable assets.

Quintiles Transnational has very effective customer linking capabilities.32 Its drug testing and sales services are available in 27 countries. The company has extensive experience in clinical trials and marketing. Quintiles’ customers are drug companies in many countries around the world. Ongoing collaborative relationships are essential to Quintiles’ success. It offers specialized expertise, helping drug producers reduce the time necessary to develop and test new drugs.
Aligning Structure and Processes

Becoming market driven may require changing the design of the organization. Market orientation and process capabilities require cross-functional coordination and involvement. Many of the companies in the Conference Board study discussed earlier made changes in organization structures and processes as a part of their customer value initiatives. The changes included improving existing processes as well as redesigning processes. The processes that were primary targets for reengineering included sales and marketing, customer relations, order fulfillment, and distribution.33 This emphasis was no doubt the result of the extensive work during the last decade on quality improvement that was concentrated in operations (manufacturing and services).

The objectives of the business process changes made by the companies in the Conference Board survey were to improve the overall level of product quality, reduce costs, and improve service delivery.34 Nine of the ten participating companies made changes in their business processes as part of their customer value efforts. Interestingly, 42 percent of the companies’ change initiatives came from the top of the organizations, while nearly as many initiatives (40 percent) were grass-roots (bottom-up) approaches. This indicates the benefits of both top-down and bottom-up initiatives.

Underpinning such changes and initiatives is the importance of what has been called “implementation capabilities,” or the ability of an organization to execute and sustain market-driven strategy, and to do so on a global basis.35 In addition to formulating the strategies essential to delivering superior customer value, it is vital to adopt a thorough and detailed approach to strategy implementation.

Summary

Market-driven strategies begin with an understanding of the market and the customers that form the market. The characteristics of market-driven strategies include developing a market-orientation, leveraging distinctive capabilities, finding a match between customer value and organizational capabilities, and obtaining superior performance by providing superior customer value. The available evidence indicates a strong supporting logic for adopting market-driven strategies, recognizing that a long-term commitment is necessary to develop these strategies.

Achieving a market orientation requires a customer focus, competitor intelligence, and coordination among the business functions. Becoming market oriented involves making major changes in the culture, processes, and structure of the traditional pyramid organization that is organized into functional units. Several interrelated actions are required, including information acquisition, sharing information within the organization, interfunctional assessment, shared diagnosis, and decision making. The objective of market orientation is to provide superior customer value.

Leveraging distinctive capabilities is a key part of developing a market-driven strategy. Capabilities are organizational processes that enable firms to coordinate related activities and employ assets by using skills and accumulated knowledge. Distinctive capabilities are superior to the competition, difficult to duplicate, and applicable to multiple competitive situations. Capabilities can be classified as outside-in, inside-out, and spanning processes. The outside-in processes provide direction to the inside-out and spanning processes by identifying customer needs and superior value opportunities.

The creation of superior customer value is a continuing competitive challenge in sustaining successful market-driven strategies. Value is the trade-off of product benefits against the total costs of acquiring the product. Superior customer value occurs when the buyer has a very favorable use experience compared to his or her expectations and the value
offerings of competitors. The avenues to value may be product differentiation, lower prices than competing brands, or a combination of lower cost and differentiation.

Becoming market driven is more involved than following a step-by-step sequence of actions. Capabilities need to be identified and analyzed, market sensing and customer linking capabilities developed, and necessary organizational changes implemented.

Our discussion of the major dimensions of market-driven strategy provides an essential perspective concerning the development of business and marketing strategies. In Chapter 2 we examine the major decisions necessary in developing and implementing marketing strategy.

A. Discuss how Dell Computer’s website (www.Dell.com) supports its mission, value proposition, and brand image. What advantages (and limitations) does the website provide to business buyers?

B. Go to www.travelocity.com and investigate the site. How does travelocity.com collect information about its customers, and how might this prove valuable to the company and ultimately the customer? What privacy issues could arise?

1. Discuss some of the reasons why managing in an environment of constant change will be necessary in the future.
2. Explain the logic of pursuing a market-driven strategy.
3. Explain the use of market orientation as a guiding philosophy for a social service organization, paying particular attention to user needs and wants.
4. Discuss the role of organizational capabilities in developing market-driven strategies.
5. Describe the relationship between customer value and a company’s distinctive capabilities.
6. What role does product/service innovation play in providing superior customer value?
7. How would you explain the concept of superior customer value to a new finance manager?
8. Suppose you have been appointed to the top marketing post of a corporation and the president has asked you to explain market-driven strategy to the board of directors. What will you include in your presentation?
9. Explain the importance of developing a strategic vision about the future for competing in today’s business environment.
10. Discuss the issues that are important in transforming a company into a market-driven organization.
11. How is the Internet likely to contribute to an organization’s market-driven strategy in the future?

Notes

17. Ibid.
20. Ibid., 39–40.
21. Ibid., 40–43.
22. Ibid.
27. Ibid.
30. Ibid., 43–45.
31. Ibid.
34. Ibid.