Market Orientation, Customer Value, and Superior Performance

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2 authors:

Stanley F. Slater
Colorado State University

John C. Narver
University of Washington Seattle

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Stanley F. Slater and John C. Narver

Thinking in terms of the market (not marketing) is essential in the highly competitive arenas of today.

To achieve superior performance, a business must develop and sustain competitive advantage. But where competitive advantage was once based on structural characteristics such as market power, economies of scale, or a broad product line, the emphasis today has shifted to capabilities that enable a business to consistently deliver superior value to its customers. This, after all, is the meaning of competitive advantage. Our recent research shows that a market-oriented culture provides a solid foundation for these value-creating capabilities.

A business is market-oriented when its culture is systematically and entirely committed to the continuous creation of superior customer value. Specifically, this entails collecting and coordinating information on customers, competitors, and other significant market influencers (such as regulators and suppliers) to use in building that value (see **Figure 1**).

The three major components of market orientation—customer orientation, competitor focus, and cross-functional coordination—are long-term in vision and profit-driven. Based on extensive interviews with managers and executives, Kohli and Jaworski (1990) conclude that market orientation provides "a unifying focus for the efforts and projects of individuals, thereby leading to superior performance." A developing stream of empirical research has found a strong relationship between market orientation and several measures of business performance, including profitability, customer retention, sales growth, and new product success.

Customer Orientation

The heart of a market orientation is its customer focus. To create superior value for buyers continuously requires that a seller understand a buyer's entire value chain, not only as it is today but also as it evolves over time. Buyer value can be created at any point in the chain by making the buyer either more effective in its markets or more efficient in its operations.

A market-oriented business understands the cost and revenue dynamics not only of its immediate target buyers but also of all markets beyond, for demand in the immediate and "upstream" markets is derived from the demand in the original "downstream" markets. Therefore, a market-driven business develops a comprehensive understanding of its customers' business and how customers in the immediate and downstream markets perceive value.

Employees of market-oriented businesses spend considerable time with their customers. Managers and employees throughout the business call on their customers or bring them into their own facilities in a constant search for new ways to satisfy their needs. For example, Du Pont has developed a program called "Adopt a Customer" that encourages a blue-collar worker to visit a customer once a month, learn the customer's needs, and be the customer representative on the factory floor.

Market-driven businesses continuously monitor their customer commitment by making improved customer satisfaction an ongoing objective. To maintain the relationships that are critical to delivering superior customer value, they pay close attention to service, both before and after sales. Because of the importance of employees in this effort, these businesses take great care to recruit and retain the best people available and provide them with regular training. Some businesses even involve their customers in hiring, training, and developing contact people as well as in making motivation and reward system decisions. Involving customers in these key areas forges strong customer loyalty.

Competitor Focus

Creating superior customer value requires more than just focusing on customers. 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. For example, a team of Marriott employees traveled the country for six months, staying in economy hotels and collecting information about their facilities and services. Armed with this information about potential competitors' strengths and weaknesses, Marriott invested $500 million in a new hotel chain. Fairfield Inn, its budget market entry, achieved an occupancy rate 10 points higher than the industry average in one year.

A seller should adopt a chess-game perspective of its current and principal potential competitors. Moreover, it should continuously examine the competitive threats they pose, inferring these threats from intent and value-creation capabilities. This is crucial information to a seller in developing its contingency competitive strategies. In one case, Hewlett-Packard decided to accelerate the announcement of a new computer peripheral after discovering through its travel agency that a rival had booked conference rooms around the country for a specific date. Knowing that this rival had a similar product in development, H-P rushed its announcement and beat the competition to the market.

In market-driven businesses, employees from all functions share information concerning competitors. For example, it is crucial for R&D to receive information acquired by the sales group about the pace of a competitor's technology development. Top managers frequently discuss competitors' strategies to develop a shared perspective on probable sources of competitive threats. A reason for the success of many Japanese companies is that they train managers to understand that competitive intelligence is part of everyone's job. Using this information, market-driven businesses often target opportunities for competitive advantage based on competitors' weaknesses. In any case, they keep competitors from developing an advantage by responding rapidly or anticipating their actions.

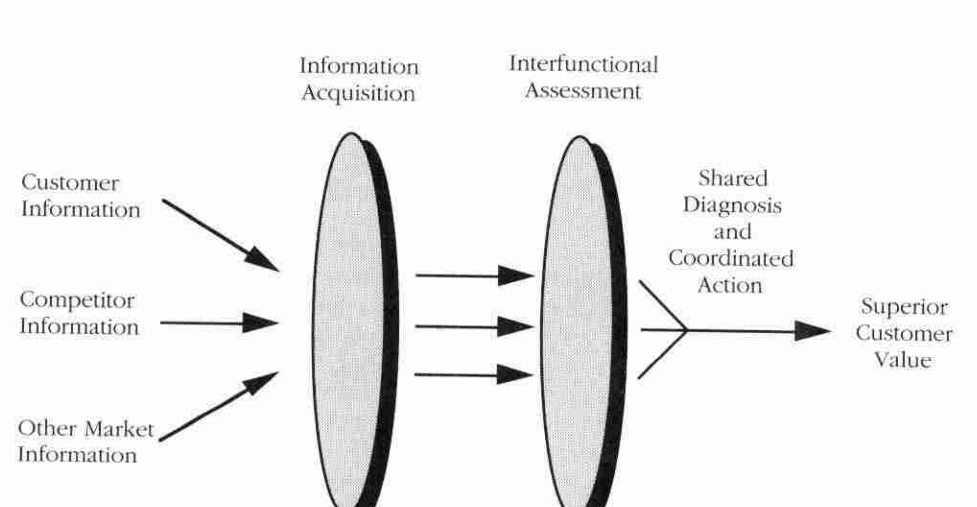
Interfunctional Coordination

The third of the three core components of a market orientation is the coordination of personnel and other resources from throughout the company to create value for buyers. Any point in the buyer's value chain is an opportunity for a seller to create value for the buyer firm. This means that any individual in any function in a seller firm can potentially contribute to value creation. As Michael Porter (1985) explains:

> Every department, facility, branch office, and other organizational unit has a role that must be defined and understood. All employees, regardless of their distance from the strategy formulation process, must recognize their role in helping a firm achieve and sustain competitive advantage.

To accomplish this, effective companies have developed horizontal structures that focus on building value, such as time-to-market for new

Figure 1
Market Orientation



products. They manage projects through small multifunctional teams that can move more quickly and easily than businesses that use the traditional function-by-function, sequential approach. For example, cross-functional teams call on customers to identify additional opportunities for value creation. Engineering becomes involved during preliminary market research to help marketers understand what is feasible. Production is involved during product design to ensure that the product can be manufactured at a reasonable cost. Engineers and production people constantly discuss their capabilities and limitations with sales and marketing so capabilities can be leveraged and limitations avoided when promoting products or services. When all functions contribute to creating buyer value this way, more creativity is brought to bear on increasing effectiveness and efficiency for customers.

Does This Mean the Marketing Department Is in Charge?

Shapiro (1988) tells the anecdote of a company CEO explaining to top managers that because of increasing competition, the business needed to become more market-oriented. With that encouragement the marketing vice president jumped in, "I've been saying all along we need to be more marketing-oriented. Marketing has to be more involved in everything because we represent the customer and we have an integrated view of the company." At that point the CEO snarled, "I said more *market*-oriented, not *marketing*-oriented."

That story is very representative of our experience with marketing orientation as well. A marketing orientation implies an emphasis on the marketing function that may not be appropriate. Customer value is created by core capabilities throughout the entire organization. Whereas Procter and Gamble's competitive advantage may be based on a core marketing capability, 3M's advantage is innovation; Canon's is technology. This does not make 3M or Canon any less market-oriented than Procter and Gamble. Because market-driven behavior permeates multiple functions at 3M and Canon, they may be more market-oriented and less marketing-oriented.

In our view, when a business achieves the objective of developing a pervasive market orientation, the marketing function may become less—not more—important, because all functions are dedicated to creating and delivering customer value. This is consistent with Regis McKenna's (1991) notion that "Marketing is everything and everything is marketing." Webster (1992) foresees a time when marketing specialists will become increasingly rare while marketing as a general management function becomes more important. This is the result of a general focus on cross-functional cooperation, which causes internal functional boundaries to lose meaning. GE's 1990 Annual Report puts it this way:

> In a boundary-less company, internal functions begin to blur. Engineering doesn't design a product, then "hand it off" to manufacturing. They form a team, along with marketing and sales, finance, and the rest. Customer service? It's not somebody's job. It's everybody's job.

However, for businesses that currently have an internal orientation on production or research and development, the marketing department may have to take the lead role in encouraging market-oriented thinking throughout the firm. As the primary boundary between the business and its markets, marketing is "management's window on the world" (Bower and Garda 1985). Because it is dependent on other functional areas for the timely and efficient development, production, and delivery of the product, marketing is likely to be the first function that fully appreciates the benefits of market orientation. To maximize its effectiveness, marketing must demonstrate the benefits of market-driven behavior to top management and to other functions. Marketing may have a key role in the development and maintenance of a culture that is truly market-oriented.

The crux is that the responsibility for superior buyer value is beyond that of any one function. Creating value for buyers is analogous to a symphony orchestra in which all members contribute according to a general plan and in which the contribution of each subgroup is tailored and integrated by a conductor—with a synergistic effect. A seller must draw upon and integrate effectively all of its human and other resources in an ongoing effort to create superior value for buyers at a profit. This coordinated integration of company resources builds directly on both customer and competitor analysis.

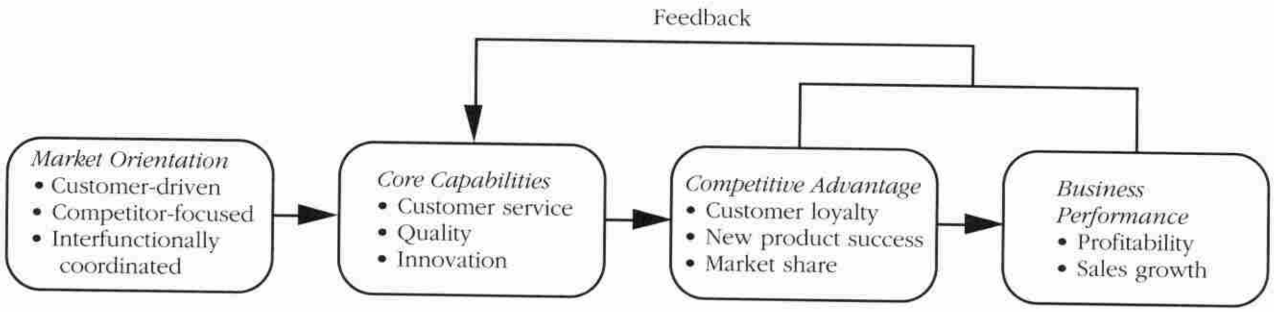
FROM MARKET ORIENTATION TO SUPERIOR CUSTOMER VALUE

We argue that a market-oriented culture is necessary to build and maintain the core capabilities that continuously create superior customer value. Recent work in service management, quality development, and new product development points to the necessity of being market-oriented for success in these key strategic activities. **Figure 2** helps illustrate this.

Service and Customer Satisfaction

To deliver superior service, businesses must understand what their customers expect, for ex-

Figure 2
Market Orientation, Competitive Advantage, and Business Performance



ceeding those expectations is the basis of enduring customer loyalty. Keeping an existing customer costs only about one-fifth as much as attracting a new one. And as Kotler (1992) noted, "[Customer] defection is the worst thing that can happen." So to build customer loyalty, businesses must make a long-term commitment to understand their customers' expectations and how they change, motivate employees to view customer satisfaction as a primary objective, monitor customer satisfaction frequently, and stay in touch with customers after the sale.

Market-Driven Quality

Customer satisfaction is the most heavily weighted category in the Malcolm Baldrige National Quality Award. The examiners look for evidence of customer understanding, commitment, and impressive results. It has never been more true that quality must be defined by the customer. Achieving high quality requires continuously monitoring what customers want.

High quality and performance also require coordinating the work force so that such quality is an outcome of the design, production, distribution, and sales processes, with input from each function along the way. GTE's director of marketing resource development implies the importance of market orientation as he describes the firm's progression from quality conformance to quality leadership: "Each stage increases the focus of a business on customer and market needs, with the final stage resulting in significantly enhanced business results" (Bruno 1992).

Innovation and New Product Development

In contrast to some "expert" opinions that new product success is the result of technology push, most of the research conducted in new product development over the past two decades shows that innovation and new product success are more likely to result from being market-driven. For example, Quinn (1986) found that all the innovative businesses he studied had a strong market orientation and explicit mechanisms to force market-technical interaction. Based on four of their own studies, Zirger and Maidique (1990) identified "an in-depth understanding of the firm's customers and its marketplace" as the first factor in their model of new product development.

The academic research was recently supported by *Fortune*'s finding that the most important characteristic of America's fastest growing companies is "putting the customer first—listening, understanding, serving" (Deutschman 1991). The success of these businesses is attributable to innovative new products, not just brand extensions, which can be lucrative without being very "new." For example, such recognized innovators as Monsanto, Corning Glass Works, and 3M consciously guide their development efforts into areas with the greatest commercial potential. Their scientists and engineers are constantly reminded of the necessity of market success.

DEVELOPING A MARKET ORIENTATION

Top management leadership is a necessity for the transition to a market orientation. Because top managers often do not have firsthand experience with strategies or activities that build customer value, they must create an environment in which change can occur without specifically decreeing what that change will be. As Harold Leavitt explains (1987):

> Probably the best way to maintain a pathfinding culture is, paradoxically, by not working at it—at least not directly—but rather by fertilizing the well-seeded soil that enables and nurtures [visionary] behavior, whenever and wherever it may develop.

Figure 3
Contrasting Approaches to Culture Change

Top management leadership is absolutely essential.

The Programmatic Approach	*The Adaptive Approach*
• Top-down	• Bottom-up
• Big change	• Incremental change
• Structure-strategy-results	• Strategy-results-structure
• Program-oriented training	• Opportunity-oriented training
• Assumes culture change begins by changing individual values	• Assumes culture change begins by putting people into new roles that require new skills or attitudes

To accomplish this, senior management provides general guidelines for business unit managers on how the culture should change, empowering them to initiate and tailor customer value strategies. In addition, top management sets specific business unit standards for customer satisfaction and other measures of market performance. The role of top management is facilitative, deftly combining top-down strategy guidelines while encouraging bottom-up strategy insights and responsiveness. By communicating and discussing business unit successes with other units in the organization, top managers reinforce success and increase organizational learning. Most important, senior managers lead by example.

Alternative Approaches to Developing Market Orientation

Figure 3 depicts two alternative strategies that businesses may apply to develop a market orientation. The first, and more conventional, strategy is a "programmatic" approach, outlined by Beer, Eisenstat, and Spector (1990), whereby managers attempt to implant the market orientation "ethic" and culture directly. The philosophy underlying this approach is that organizational change is the result of changes in individual beliefs and behaviors. Therefore, the focus is on the attitudes and activities of individuals. Businesses that use a programmatic approach to organizational change often adopt change programs because they are fashionable rather than because management recognizes some intrinsic value in them.

Management makes decisions and decrees actions because they are "correct" and fit the program's philosophy. Organizational structures and administrative systems are modified as the foundation for future competitive efforts. Too often, consultants and staff experts take ownership of the program and attempt to "convert" employees to the philosophy of market orientation through training and communications. The program's champions urge management and employees to have faith in the program and to be patient about achieving results.

The alternative is the "adaptive" approach. Under this approach, management and employees continuously learn from their efforts to create buyer value. They adjust strategy, structures, systems, and staffing based on such learning. Key performance measures are developed early and short-term performance improvement goals are set. Even though management has made a long-term commitment, the mood is one of impatience. Results of some sort are expected early in the program; continuous improvement is expected throughout the program.

Our studies (Narver and Slater 1991) indicate that the adaptive approach is superior to the programmatic approach for helping businesses become more market-oriented. Why? Contrary to the fundamental assumption of the programmatic approach, individual behavior is most effectively changed by putting people into new roles or responsibilities and empowering them to achieve results. In those new roles, individuals, functions, and businesses develop new understanding and appropriate capabilities in response to market results. The adaptive approach monitors results and then makes appropriate adjustments in the firm's structures and strategies.

Moreover, the programmatic approach is often too large-scale and diffuse precisely because it is not based on specific market problems. Assessing its effectiveness is difficult because of the abstractness of the specific problems. Because the programmatic approach is often staff- and consultant-driven, it is neither "owned" nor supported by line workers.

In sum, the programmatic approach is broad, often rigid, and based on general assumptions about the need for the program. In contrast, the adaptive approach is focused, flexible, and based on learning from specific market problems and experiences.

Market Orientation and Continuous Learning

Market conditions and competitive threats never stand still. As the requirements for attaining a sustainable competitive advantage change, so must the particulars of the three core components of market orientation.

Market orientation is not a preordained set of specific structures or behaviors. Rather, the three core components are manifested in the organization's culture and climate, and must be continuously adapted, as required, to create and maintain superior customer value within a given market. Ray Stata (1989), CEO of Analog Devices, warns that "the rate at which organizations learn may become the only sustainable source of competitive advantage."

The adaptive approach to developing and sustaining market orientation is synonymous with organizational learning. Market-driven learning may be the only basis for creating superior value because, unlike products or technologies that may be obvious to competitors, it is a deeply embedded organizational process that is difficult for outsiders to perceive and almost impossible for them to imitate.

A market orientation is an externally focused business culture that makes creating superior value for buyers its top priority. That value comes from successfully exploiting core capabilities that can be developed in any functional area.

But a market orientation is far more than just a function of marketing. A *marketing* orientation results in placing the marketing function at the top of an organizational hierarchy, leading to a preoccupation with traditional marketing activities when they are neither the major nor the appropriate core capability of the firm. Just as with any functional primacy, a marketing orientation leads to internal conflict over resource allocations and business priorities. In addition, making any one function dominant denies the reality that superior customer value is created and maintained when all functions have the opportunity to contribute.

It is also important to resist the temptation to defer efforts to become market-oriented because of a favorable environment. Based on interviews with marketing and general management executives, Kohli and Jaworski (1990) found a pervasive belief that businesses could get away with being less sensitive to customers and competitors when a market was experiencing strong demand. In our research as well, we have found that the relationship between market orientation and performance in high-growth, low-competition environments is slightly weaker than in low-growth, high-competition markets. In the long run, however, all businesses will encounter low growth and competitive hostility; these are the conditions that require a business to be market-driven. It is better to invest in developing a market orientation while conditions are favorable than to wait until they are threatening.

A business's opportunities for success will be maximized when all organizational members recognize that they can contribute to creating buyer value and are motivated and empowered to do so. Market orientation is a culture that focuses their efforts and enables this to happen. ❐

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Stanley F. Slater is an associate professor of strategic management and marketing at the College of Business and Administration, University of Colorado, Colorado Springs. **John C. Narver** is a professor of marketing at the Graduate School of Business Administration, University of Washington, Seattle. The authors gratefully acknowledge the support of the Marketing Science Institute, Cambridge, Massachusetts.