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Market-Driven Management: A Critical Literature Review

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Abstract

In global markets corporations adopt a market-driven approach which takes the form of careful monitoring of the competition and skill in understanding the market, the operators who work on it, their key characteristics and their products, in order to choose the most suitable course of action, thanks to better and faster understanding of what is being achieved in the extended market space. The paper provides a critical review of the main literature on market-driven management, analysing its evolution from Japan to the USA and Europe.

Keywords: Market-Driven Management; Critical Literature Review; Global Competition; Competitive Advantage

1. From Product Orientation to Marketing Management

Until the 1950s, with demand exceeding supply (*scarcity of supply*), management models paid tribute to the *scientific management* (Taylor 1911; Ford 1922, 1926, 1930) model introduced by Ford in the 1930s. The Ford model, which was based on the idea of giving every citizen a car at an acceptable price, led to the introduction and spread of mass production in the United States. This model was perfect for the market conditions in the United States in the Twenties. The then Chairman of General Motors, Albert P. Sloan (1990), described these conditions pinpointing a radical transformation, between 1924 and 1926, that changed the automotive market from the production of a very few, very expensive units for a small number of customers, to the era of the good quality car for everyone. The Ford approach, which was based on the supremacy of product orientation and the theory of the scientific organisation of labour, was designed to achieve economies of scale based on standardised mass production, the rationalisation of the manufacturing process and a reduction in dead time, by the introduction of the assembly line¹. Ford succeeded in transforming the car from an elite product that was expensive to purchase and to run, into a standardised product for the masses, with a purchase price that was accessible to a large number of purchasers (symbolised by the Ford Model T that could be painted any colour so long as it was black). In this business model, which focused on the product and on price competition, the market was still homogeneous and not differentiated. Supply

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controlled demand, defining the quantities produced and sold, and therefore the prices, and had the knowledge and information necessary to programme future activities. The entire output was sold at the price set by the manufacturer and there were usually no stocks² of finished products because everything produced was sold. But this situation was not only the effect of the presence of a small number of suppliers with respect to demand or of the general lack of alternative choices (*scarcity of supply*), but rather the result of an attempt to market supply while closely monitoring quantities, in order to meet a demand whose needs and principal characteristics were known.

In the 1950s the US economy entered a period of sustained growth, evolving from a *scarcity economy* ($D > S$) to one of *demand and supply in dynamic balance*, or *controlled competition* ($D \approx S$). According to Chamberlin (1933), who coined the term “product differentiation”, Sloan (1990) grasped these changes and, to respond to the saturation of demand, began to highlight the characteristics of his own models, launching increasing differentiated models on the market. In this period a new management philosophy, known as Marketing Management, began to take hold. Unlike *Scientific Management*, this model presupposes that the company has detailed knowledge of demand and of its segments, so that it can offer differentiated products that are able to fill different market spaces. Companies modify their strategies from price competition to non-price competition. In other words they invest in product differentiation and, therefore, in demand segmentation to increase sales volumes and stabilise market share compared to their competitors, trying to stave off competition based on prices. Unlike *scarcity of supply*, on markets with *demand and supply in dynamic balance* (*controlled competition*) there are numerous alternatives to choose from, all with the same end goal and belonging to the same product class to meet the same need. The presence of alternatives allows demand to express its capacity for choice, highlighting different companies’ capacity to react to satisfy numerous demand segments. As a result, with *marketing management*, the management process starts from demand to define the characteristics of a product that is destined to fill a specific ‘supply vacuum’, by creating segments that tend to be homogeneous internally and heterogeneous externally, easily identifiable and stable for longer periods of time. The demand segmentation process enables companies to deal with the inhomogeneity they come up against, and to search for homogeneous conditions on which to focus their policies.

Starting in the early 1980s, with the globalisation of markets and the saturation of segments, further changes occurred in market conditions; these led Ohno, the father of the Toyota Production System and of *market-driven management*, to ask himself how to compete in increasingly dynamic and global markets.

2. Ohno and Ohmae: the Japanese School of Management

Taiichi Ohno, following the philosophy of Deming (1982), is universally recognised as the father of the Toyota Production System and, by extension, of the manufacturing philosophy known as ‘lean manufacturing’ (based on the ‘integrated plant’, the ‘just-in-time’ system and ‘total quality’) which has generated the modern management philosophy known as *market-driven management*. The Toyota System has numerous similarities with previous manufacturing models, implementing some of their distinctive features in full. However, underlining some of the main differences helps to establish the extent to which this system is an

element of discontinuity in relation to *scientific management* and to *marketing management*, and the basis for the development of *market-driven management*.

The first, fundamental element of discontinuity regards the market conditions in which these corporate policies are successful. The Toyota model was created and developed in a competitive environment which differs significantly from both the Ford model (born in a market where supply was scarce and based on the idea of the absence of limits – the infinite expandability of the demand framework) and from *marketing management*, which was based on controlled competition and on the importance of controlling demand by differentiating supply through non-price competition logics. The market of the late 1970s was no longer stable and steady, in a limited, easily identifiable space with defined physical and/or administrative boundaries. It was dominated by the oil crisis, by saturated demand, by the competitive role of time (time-based competition) and space (market-space competition), by the struggle between giant manufacturing concerns on increasingly dynamic, extended, competitive, demanding and selective markets. The Toyota system developed in a ‘finite’ market, characterised by awareness of the ‘limit’, of the impossibility of continuing to produce ever greater quantities of undifferentiated products and of the need to produce smaller quantities of increasingly differentiated products to face up to a demanding and saturated market. In these stagnant conditions, companies have to cut costs without increasing the manufacturing scale, in fact reducing and differentiating it.

These considerations lead us to the second element of discontinuity: the relationship between company and market. The Toyota model entails a clear inversion in this relationship: from a situation of ‘supply-demand-competition’, where supply ‘dominates’ demand thanks to low competitive intensity, to a situation of ‘competition-demand-supply’. It is no longer the company that ‘creates’ the market, as it was in the Ford model, because of the *scarcity of supply*, but competitors and the voluble preferences of the market that determine the structure and manufacturing decisions. Supply no longer influences the market by defining the quantities to produce on the basis of demand that changes slowly and steadily. In a situation of oversupply, competitor’s manufacturing decision and the subsequent volubility of demand constantly modify output, determining its programming. The Toyota system encourages output to meet the market halfway by producing small quantities of a large number of models, unlike the American market that produced large quantities of a small number of models. This clear inversion of the supply-demand relationship emerges clearly if we analyse market information flow trends. In *scientific management* and *marketing management* the information flow moves in a linear fashion from top to bottom, originating from company management, which takes the decisions regarding the manufacturing volumes and manufacturing times of each department, and then extends to all the components of the cycle until it reaches the market in a ‘supply-demand’ relationship. In the Toyota system, on the other hand, communication goes from bottom to top. Company management is still responsible for defining strategies, but the information flows, particularly those of an operational nature, originate from the market and are transmitted retroactively to the working cycle, by the ‘kanban’ technique.

Globalisation and the new competitive conditions it generates led Kenichi Ohmae (1982, 1986, 1990, 1992, 1994, 1999, 2001, 2005) to support and corroborate Ohno’s theories. In ‘The Borderless World’ published in 1990, Ohmae predicted the rise and success of globalisation, coining the very word. In his studies, he

synthesises today's emerging trends into the first coherent view of tomorrow's global economy and its implications for politics, business and personal success. For Ohmae, globalisation is not a myth, but a fact. We cannot stop it. It has already happened and we are moving into a new global stage. According to Ohmae's theory, a radically new world is taking shape from the ashes of yesterday's nation-based economic world. To succeed, companies must act on the global stage, leveraging radically new drivers of economic power and growth. The interconnected, interactive and global economy challenges both the way we see business and the way we do it.

As a result, globalisation, the elimination of space-time competition limits and the growth of oversupplied markets force companies to adopt new management policies that are market-oriented (*market-driven management*) and no longer limited to the product (*scientific management*) or to demand (*marketing management*). As the company's control over the market is reduced it also loses the possibility of adopting a long-term strategic plan based on certain, regular deadlines, and must learn to observe the market and to operate with very short action/reaction times and extended spaces that can no longer be identified with specific physical/administrative/cultural contexts. And it is in this competitive situation that *market-driven management* establishes itself.

3. From the Japanese School to the American School: Market-Driven Management

Market-driven management began to establish itself in the late 1980s as an effect of market globalisation and the many innovations introduced by Japanese scholars and by Toyota (flexible production, lean production, just in time, total quality, mass customisation), who were the first to underline the importance of corporate management focused on the market and on competition rather than on demand (*marketing management*) or the product (*scientific management*).

However, it was thanks to the work of a group of American scholars (Best 2009; Day 1990, 1994, 1998, 1999; Narver and Slater 1990; Slater and Narver 1994, 1998, 1999; Jaworski, Kohli and Sahay 2000; Webster Jr. 1988, 1992) that this strongly market-oriented management model began to spread in the West. These scholars have refined the concept of market-driven management, valid measures of the market orientation developed, and a strong relationship demonstrated between market orientation and business performance (Jaworski and Kohli 1993; Narver and Slater 1990; Slater and Narver 1994, 1999). All these studies support the conclusion that market orientation is essential to success in a global market. However, according to Slater and Narver (1999), much that has been written about the nature and consequences of being market oriented is incomplete or incorrect. This misunderstanding has occurred because authors, without realizing it, are often confusing two different concepts: marketing orientation and market orientation. In fact, marketing-oriented and market-oriented are occasionally used synonymously (Shapiro 1988), but there is actually a profound difference between them, which marks the evolution from *marketing management* to *market-driven management*.

On one hand, the concept of marketing orientation is closer to the American vision of the concept of marketing (McCarthy 1960; McNamara 1972; Kotler 1967, 2005) and in particular to its role as a corporate function that coordinates and

manages the four Ps in order to make a company more aware of its customers' needs (Lambin 2000, 2007).

The concept of market orientation (Lambin 1998, 2005; Webster Jr. 1988; McGee and Shapiro 1988; Day 1990, 1994, 1998, 1999), on the other hand, rethinks the role of the marketing function and extends the definition of market not only to the customer but to all its main players (Lambin 2000, 2007). The development of a market-driven concept, therefore, cannot be left entirely to the marketing department because it demands the involvement of all company functions (Day 2000/2001). An orientation to the market questions the concept and role of marketing in the corporate system. The concept of marketing that is taking hold in over-supplied global markets is radically different from that of other competitive conditions.

Until the 1950s, in scarcity economics, marketing was not a formalised function inside a business. The sales department pursued the sole goal of selling the product. Product planning, distribution, pricing and sales were seen as separate activities and an overall corporate policy that synergetically combined all these elements and strategically analysed the links between them did not exist yet.

Starting in the 1950s, as competition began to be more intense, the concept of marketing began to take hold, marking the evolution from a focus on sales to a focus on the customer. In this regard Drucker (1954) maintained that 'marketing represents such an important function for the company that it is no longer possible to limit it and identify it only with a strong sales department. Marketing is not only a much vaster concept than that of sales, but it is not even a specialist activity, an autonomous corporate function that is separate from all the others, regarding and influencing all corporate activities, observed from the viewpoint of the end result, i.e. from the customer's viewpoint.' In an article of 1960, to underline the importance of this change, Keith compared the evolution from a focus on sales to a focus on the customer to the Copernican revolution: it is the company that revolves around the customer rather than the customer around the company. Customer-oriented marketing underpins the development of an organisational culture and a shared sum of values that is recognised inside the company to place the consumer at the centre of company strategies and policies. Each component of the organisation must think of how his own work can produce value for the consumer. As McNamara noted (1972), the concept of marketing is 'a philosophy of business management based on a company-wide acceptance of the need for customer orientation, profit orientation and recognition of the important role of marketing in communicating the needs of the market to all the major corporate departments'. Thus, marketing-oriented companies focus on understanding the expressed desires of the customers and on developing products and services that satisfy those desires (Slater and Narver 1998, 1999). The problem with this philosophy is that it is concerned with satisfying customer's expressed needs, it is reactive and short term in focus, it generally leads to adaptive rather than generative learning (Senge 1990) and it leads to internal conflict over resources allocations and business priorities.

Finally, from the 1980s, the emergence of new market paradigms on the heels of spreading globalisation, caused the concept of marketing to evolve further, from *marketing management* to *market-driven management* (Webster Jr., 1994). On global, fiercely competitive markets, *marketing management* may pose significant problems in terms of implementation, including: difficulty in attributing true priority to competition; marketing expenditure that is gradually less efficient; the creation of a marketing bureaucracy. These problems, combined with the spread of

new competitive conditions, have been the main causes of the spread of *market-driven management*. Narver and Slater (1990) suggested that market orientation consists of three behavioral components (customer orientation, competitor orientation, and interfunctional coordination) and two decision criteria (long term focus and profitability). According to Slater and Narver (1998, 1999), market-driven companies seek to understand customer's expressed and latent needs, and the capabilities and plans of their competitors through the processes of acquiring and evaluating market information in a systematic and anticipatory manner. Compared to marketing oriented companies, market oriented companies scan the market more broadly, have a longer-term focus, and are much more likely to be generative learners (Senge 1990).

One of the most important contributions to the development of this new management policy came from George Day (1999, 2000/2001), who defined the market-driven company as a company with superior skills in understanding, attracting and keeping valuable customers. Day (2000/2001) also clarified that this is not a definition based on absolute standards which, if respected, always qualify a successful market-oriented company, but that these criteria vary according to the competitive alternative which the company is dealing with. The concept of '*superior*' highlights this 'relativity', underlining that being successful in a competitive market means performing better than the competition or a specific competitor. Although there are no rules or behaviour than can guarantee that all companies will be successful market-driven companies, Day (2000/2001) identifies three characteristics which, when skilfully combined, i.e. a combination that is superior to that of the competition, may produce a successful market-driven company. These characteristics may be summed up as:

- a culture focused on the outside world, with dominant convictions, values and behaviour that highlight the importance of creating value for the customer and of the continuous search for new sources of competitive advantage;
- particular distinctive capabilities to perceive the market, to relate to market demand, and to define anticipatory strategies. This means that market-driven companies understand their markets in greater depth and are more skilful in forging close links with more important customers. The clarity of their strategic ideas helps market-driven organisations to adopt winning lines of conduct that anticipate opportunities rather than reacting to threats from the market;
- an organisational configuration that enables the whole company to constantly anticipate customers' changing needs and to respond to market conditions. This configuration includes all the other capabilities to generate value for the customer: from product design to order filling, as well as an adaptive organisational structure and all the systems to support, control, assess and develop human resources. All the elements of the organisational configuration are aligned with a superior value proposition.

These three elements represent a shared base of knowledge with which a market-driven company collects and disseminates its information and its own view of the market. This knowledge underpins relations with customers, inspires the corporate strategy and focuses employees' attention on the needs of the market.

According to Best (2009) an orientation to the market is not achieved by a simple statement of intent, but presupposes a *market-driven management* philosophy, which demands: the reorganisation of the company around the market rather than around the product or plants; a corporate culture driven by results that monitors varying demand and instability in the competitive environment; the preparation of new metrics of intangible and tangible factors, to assess the corporate performance in changing external contexts.

4. Market-Driven Management and the Evolution of Market Orientation: the European School

Lambin was the first in Europe to propose a change from customer orientation to market orientation, in 1998. He identified four stages that characterise the evolution of the concept of marketing:

- passive marketing (orientation to product);
- operational marketing (dimension of action and orientation to sales);
- strategic marketing (dimension of analysis and orientation to customer);
- market-driven management (cultural dimension and orientation to market).

In Lambin's subsequent studies (2000, 2007), the competitive orientation to global markets was developed further and in concrete terms. The author directed his analysis to the role of market-driven companies and their organisational structure. On global markets, companies are shifting constantly from a customer orientation to a much vaster market orientation in which the market is seen as a complex ecosystem where the cultural dimension is present in the corporate organisational structure. According to Lambin (2007), it is possible to identify four elements that distinguish the concept of marketing from the concept of market-driven management:

- marketing focuses on the customer, while market-driven management addresses the competition and the market, or all the players that are present in it (customers, competitors, distributors, specifiers, other stakeholders) according to an outside-out logic;
- marketing is based on a simple 'pull market³ model' (strategic response marketing), while market-driven management is based both on the requests of the market (pull market) and on innovative models linked to a technological impulse (proactive strategic marketing);
- marketing is oriented to action and to analysis based on the paradigm of the 4 Ps, while market-driven management is oriented to action, analysis and culture;
- the concept of marketing is limited only to the marketing function, while market-driven management is based on a culture that pervades every level and every function of the company, striving to achieve complete functional interaction.

It was around this last point that Lambin (2008) formulated his most significant considerations, underlining that the radical changes that had taken place in the competitive environment had redefined the concept of marketing but had also had serious repercussion on the role played by marketing within the corporate

organisational structure. Marketing is no longer a distinct, independent corporate function. In a market-driven company, inter-functional coordination is particularly important because it implies the involvement of all levels of the company organisation and not only the marketing operatives. In order to prosper and grow, a company must find a systematic consistency between all its parts, to satisfy the interests of all the parties that gravitate around it, drawing extensively on a shared culture. Bureaucratic, hierarchical and functional organisations, with a low level of interaction, must evolve into more efficient organisms. Companies that operate on global markets must strive towards new organisational forms with a horizontal, transverse division of roles, to replace traditional vertical structures organised by processes. The main advantages of this structural evolution are: a leaner organisational structure and decision-making process; the possibility of developing a simple, efficient and flexible internal organisation (in terms of the rapid, correct transfer of information, controls, etc.); lower costs, particularly for personnel, due to the elimination of functional ‘fragmentation’ and the resulting proliferation of substantially identical roles and duties⁴; greater interaction between all parts of the organisation. It therefore becomes clear that the key word for market-driven companies that have to deal with the competitiveness of global markets is interaction. It is through the direct interaction of the various decision-makers and operational teams that a strategic global approach can be defined and put in place.

Lambin and his scholars (for example, see Schuiling 2000/2001) are therefore responsible for the most concrete attempt to contextualise market-driven management to European markets. However, his model has two significant limitations. First of all, Lambin underlines the need to go from a vertical structure organised by processes to a transverse structure, but does not show how to achieve it in terms of figures, roles and tasks. He does not consider the fact that, in large global corporations, this evolution demands even greater flexibility and the reduction of superfluous costs, particularly for personnel. A second limit lies in the clear separation between the various concepts of marketing (passive marketing, operational marketing, strategic marketing, market-driven management), as if they were independent. But this distinction, although useful theoretically and as historical analysis, is a conceptual rather than a real distinction, independent of the market conditions in which the company operates.

5. ‘Before and Better than Competitors’: Market-driven Management and Global Competition

Globalisation, which marks the end of traditional space-time competition limits and the spread of interconnected markets with different levels of competitive intensity, has prompted large corporations to operate in contexts dominated by market-space competition and time-based competition that highlight the achievement of vital cost economies (of purchasing, manufacturing, distribution, communications and sales). Global markets therefore accentuate the adoption of a market-oriented management model by companies. According to Brondoni and the Milan-Bicocca School of Management, to whom we owe some of the most concrete attempts to interact with Japanese, American and European scholars, market-driven management is a corporate development strategy oriented to the market (whose goal is to generate instability of supply and to increase the variability of demand) and dominated by

competitive customer value, which proposes direct, continuous benchmarking with competitors (before and better than competitors). Market-driven companies must identify a competition space (demand vacuum), choosing the product characteristics that meet the temporary and therefore highly instable expectations of demand (Corniani 2002, 2005). In this type of strategy, product intangible assets (i.e. pre-sale services, after-sales services, logistics, design, branding) play a leading role. They can only be effectively exploited if there is a conscious, modern approach to intangible corporate assets (corporate culture, information system and corporate identity). On global, over-supplied markets in particular, where customers are increasingly voluble and disloyal, market-driven management presupposes: activities that address the markets (i.e. competitors and demand) rather than customer satisfaction alone; market policies based on continuous innovation and competitive pricing to meet changing and instable demand; and finally, new metrics to evaluate the factors (particularly intangible, corporate and supply) that influence corporate performance in the short and very short term. In global contexts companies must therefore adopt a competitive approach to the market which takes the form of careful monitoring of the competition and skill in understanding the market, the operators who work on it, their key characteristics and their products, in order to choose the most suitable course of action, thanks to better and faster understanding of what is being achieved in the extended market space (market-space competition). The market-driven company is therefore one that not only reveals a superior ability to understand, attract and keep valuable customers (Day 2000/2001), but one that is also able to organise and exploit resources and skills in order to act *'before and better than competitors'*. Finally, from an organisational viewpoint, market-driven companies are an innovative element that obliges all corporate functions (manufacturing, sales, marketing, finance, etc.) to operate consistently and synergetically with each other and with the environment, to be aware of competitive conduct, to anticipate the expectations of demand, and to be ready to propose solutions that go beyond the roles of the individual functions and the physical space of natural competition. Market-driven management focuses on an outside-in vision based on the identification of products whose value is higher than those of competitors in order to force the intersection with demand, on the creation of the maximum temporary value, offering goods to specific demand bubbles (Corniani 2002, 2005), and on the time-based acquisition of market knowledge. Corporate management is therefore qualified by: a corporate dimension, with specific behavioural standards and values (corporate responsibility) that are consistent with the complexity and transparency of global markets; an analytical dimension based on continuous monitoring of the competition system and in line with modern corporate economics sustained by pull/push corporate communications flows and forced to operate in global markets in a state of instability; and finally, a proactive dimension in which time and space are competitive factors (time-based competition and market-space management) and no longer given elements that are foreign to corporate reality (Brondoni 2008, 2009; Gnechi 2009).

The spread of market-driven management in Italy, thanks to the work of the Milan-Bicocca School of Management at the end of the 20th and early 21st centuries, has resulted in ever-growing interest in the analysis of strategic and management issues from a market-driven approach. Several Italian scholars adopted different theoretical approaches to address the link between market-driven management, global markets, corporate governance and entrepreneurship.

Salvioni (2003, 2005, 2008) examined the models of corporate governance and their most appropriate configuration in market-driven companies. Zucchella and Majocchi (2008), by analysing the link between global entrepreneurship and market-driven enterprise, stated that the outside-in logic typical of market-driven companies, which are striving constantly to fill instable, risky and temporary demand vacuums, goes hand in hand with the proactive, innovative and risk-taking behaviour of the entrepreneur. Sciarelli (2008) on the other hand, examined the possible links between the resource-based view and market-driven management, identifying points of contact in market-driven companies' superior ability to orient the market because they can draw on particular intangible assets at corporate and product level. Other studies (Vallini and Simoni 2009) examined the importance of adopting an extensive market-driven approach, adopted to compete not only on outlet markets (on demand) but also on input markets (on supply). Global markets oblige companies that wish to obtain a lasting, sustainable competitive advantage to be market oriented in their management of all their relationships, whether upstream (input markets) or downstream (outlet markets). As a result, companies will no longer have to operate alone in a competitive context (oversupply, demand and supply in dynamic balance or scarcity of supply), but in one of the possible combinations of the same.

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Notes

¹ The assembly line made it possible to increase the number of cars produced in a single unit of time compared to manufacturers that were still anchored to artisan methods, and therefore to lower the unit cost and thus the selling price, making the purchase accessible to vast areas of the population.

² However, it is clear that a correct stocks policy must be implemented upstream, in other words at the purchasing end to avoid interrupting the manufacturing process, and this usually translates into a very rigid manufacturing organisation, which can bring significant economies of scale and of experience.

³ The need to launch a new product comes from the market, and is 'pulled' by the market itself.

⁴ For example, a function that was previously performed by several people in different functions is now performed by a single person with a conspicuous reduction in costs and a significant saving in the time necessary to transfer, analyse and coordinate information flows.