# 2 The Core Concept of Marketing Management

Wulff Plinke

This chapter focuses on the evolution of the marketing concept and the components of marketing management in firms. The first part is about the way our understanding of marketing has developed over time, including market and customer orientation. The second part discusses in more depth the management of marketing activities in firms and the nature and role of market and customer orientation.

## 2.1 Meanings, Myths, and Misunderstandings: Some Preliminary Comments

In the previous chapter, we became familiar with the fundamental concepts and basic processes of the market: problem solving as a central driving force; exchange in its dyadic, expanded, and complex forms; market transactions; market process; and competitive advantage. Using these concepts, we are able to paint a picture of market processes and the conditions under which market participants can achieve their objectives. In the second and third chapter, we will focus on the behavior of suppliers in market.

First, some preliminary comments regarding the term "marketing." All of us—whether we have the relevant experience or not—have our own more or less well-defined preconceptions of what marketing is. Preconceptions are not inherently bad; quite the contrary, they make our lives simpler. Without preconceptions, all thinking and acting would take considerably longer. However, existing preconceptions of marketing can hinder people's understanding of the basic principles of industrial marketing described in this book.

Here are some popular meanings, myths, and misunderstandings about marketing:

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1. *Marketing is unnecessary*: Many engineers and scientists and even experts in IT or financial and accounting departments in a firm have this view of marketing. It leads to a fundamental skepticism, even outright rejection that can lead to interdepartmental conflicts. It is not easy to get to the roots of this skepticism, but some of the causes include the following. In firms operating in industrial markets, we often come across the view that market success is dictated almost entirely by engineers and technical factors. Engineers frequently believe that market success depends primarily on having excellent contacts with the engineers in the client firm. They believe in their process and product technology and in the product itself. "A good product sells itself!" They do not consider other factors that may mean the best product doesn't even get a look-in. Consider the case of IBM, which took pride in never having offered the best mainframes from a technical point of view, yet occupied the number one spot for years due to its superior sales force and service. Then there is the story of how the Sony Beta video system succumbed to competition, from the arguably technologically inferior VHS system. It is not hard to find other examples. The conclusion is that a superior technology or product does not sell itself. Technology is only one factor affecting market success. Anyone who considers marketing unnecessary is generally representing some other functional interests in the firm. Preconceptions about marketing, whether positive or negative, frequently have something to do with the struggle for influence and budgets in a firm.
2. *Marketing is the manipulation of buyers*: Another view is that marketing involves manipulating people to buy things they otherwise would not. This view is typified in books such as Vance Packard's "Hidden Persuaders" and Wilson Brian Key's "Subliminal Seduction" (Packard, 1957; Key, 1973). But marketing is not a word for more or less sophisticated and questionable methods of influencing, persuading, or manipulating customers. Such methods are a part of marketing activities but they should not be equated with it.
3. *Marketing is pricing policy*: Marketing skeptics, especially those from finance and accounting, frequently regard buyers in industrial markets (in contrast to consumer markets) as being highly rational. They argue that they are professional purchasing managers, and there is thus no scope for marketing like activities. On the other hand, if the product does not stand out against rival products in other ways, the price alone ultimately decides who wins the game. We saw in Sect. 1.4 that this is only one of several possible situations. The conclusion is simple: when the product does not stand out and price is the deciding factor, more thought should be given to marketing and action taken in this direction.
4. *Marketing is selling*: Marketing is not just another word for selling. Sales are a traditional line function in the firm, which arises due to the division of work and specialization. While selling has a lot to do with marketing, it should not be equated with it. Nor should marketing be equated with market research, with advertising or with public relations. It is much broader than these activities.
5. *Marketing is for specialists*: Here marketing is equated with the marketing department of a firm and is viewed as the job of specialists who are responsible

for various marketing activities, including market research and advertising. Just as the R&D specialist feels responsible for "their" function (and would not tolerate outside interference), the same applies to the marketing "function"—with the result that no one is viewed as responsible for marketing apart from the specialists supporting the sales manager or general management. We often come across departments or job descriptions in companies in the capital goods sector with the name marketing. The tasks they perform range from market monitoring, statistical analysis, and keeping an eye on the competition through to drafting action plans and negotiating with advertising agencies and market research firms and the analysis and preparation of overall strategic concepts. All these activities are an important part of marketing. Our contention is that *marketing is not a position or a department in the firm nor is it a box in an organization chart*. For this reason, a firm with a marketing department does not necessarily practice marketing, while a firm that has no job with this title may practice marketing in a perfectly effective manner. Rational arguments regarding the organization of marketing are only possible once the basic concept of marketing has been clarified and the marketing process defined.

6. *Marketing is everything*: Marketing is sometimes used as a universal expression for diverse business processes, especially if someone wants to change something, i.e., "A bit more marketing is needed there . . .." Marketing is not a snappy circumlocution for internal measures designed to get an idea or an initiative over to the employees, nor is it a means of oiling stiff wheels or a sweetener to make an uncomfortable decision acceptable. We should not try to apply the term marketing to anything and everything in human interactions. *Marketing takes place in markets*.

The various activities and issues discussed in the foregoing may be associated with marketing but it is a far more strategic, comprehensive, and fundamental aspect of business than any one of these.

We therefore ask that you try to put aside everything you have knowingly or instinctively associated hitherto with the term marketing. Once you have worked your way through this chapter, you can revisit your initial ideas and compare them with our view of marketing.

## 2.2 The Marketing Concept

### 2.2.1 Evolution of the Marketing Concept

The marketing concept has been steadily increasing in importance. Marketing management as we understand it today originated in the 1950s and is thus more than 60 years old. Let us look at two viewpoints from the early days of modern marketing, which marked the transition from a selling to a marketing orientation in business.

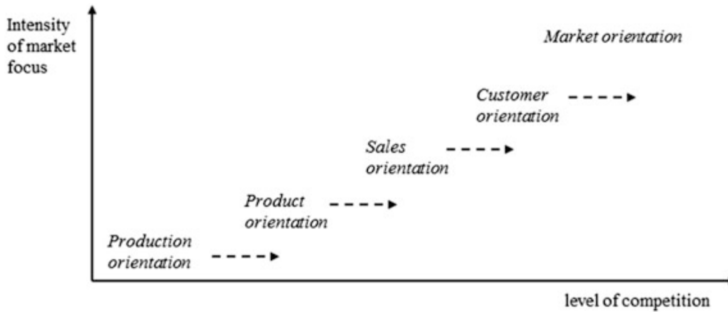


**Fig. 2.1** Orientations of the firm to the market

Peter Drucker (1954) formulated the following vision of the marketing concept:

> There is only one valid definition of business purpose: to create a satisfied customer. It is the customer who determines what the business is. Because it is its purpose to create a customer, any business enterprise has two—and only these two—basic functions: marketing and innovation. [. . .] Actually marketing is so basic that it is not just enough to have a strong sales force and to entrust marketing into it. Marketing is not only much broader than selling, it is not a specialized activity at all. It is the whole business seen from the point of view of its final result, that is, from the customer's point of view (Drucker, 1954, pp. 38–40).

Theodore Levitt (1960) of Harvard University expressed it thus:

> Selling focuses on the needs of the seller; marketing on the needs of the buyer. Selling is preoccupied with the seller's need to convert his product into cash; marketing with the idea of satisfying the needs of the customer by means of the product and the whole cluster of things associated with creating, delivering and finally consuming (using) it (Levitt, 1960, p. 50).

Modern marketing aims to bring about a specific orientation of the firm to the market. These two "gurus" of modern marketing described the marketing concept some time ago, but it is still not the case that this concept has become accepted as a matter of course in every firm. No matter how reasonable it appears to be, this focus of firm behavior does not occur automatically. On the contrary, very different firm orientations can be observed in the market, which in some cases have nothing to do with marketing. The reason for this is to be found in the level of development of an economy or industry and the intensity of competition.

In simplified historical terms, the relationship between a firm and its market can be illustrated by the development of competition between the suppliers of consumer and capital goods in the Federal Republic of Germany following the Second World War (cf. Fig. 2.1). The pattern of development is similar to that experienced in many Western countries after WWII.

#### 2.2.1.1 Production Orientation

Production orientation is a management orientation which assumes that the availability of production capacity creates a decisive competitive edge. It assumes that *production is the bottleneck*. This was the situation at the end of the WWII, when

virtually everything had been destroyed and reconstruction was just getting underway. Anyone who could produce found purchasers, as the market was drastically under-supplied. A production orientation is the management orientation found in the complete absence of competition. Symptoms of production orientation include, disregarding the customer's wishes, the arrogance of the monopolist, pronounced hierarchies, a tendency towards bureaucracy, and an inclination amongst staff to cultivate personal interests if there is a lack of control. Even now we come across examples of production orientation like islands in the sea of competition, for example, in local government bodies, or the ferry service of an island which receives a lot of visitors in summer but can only be reached by one shipping line. Centrally controlled economies are production oriented in principle. Production orientation will cause a firm to fail when competition emerges and the firm cannot radically reorganize itself very quickly.

#### 2.2.1.2 Product Orientation

If competition develops in a production-oriented economy, as in many economies after WWII, then a product orientation will tend to emerge. The reason for this lies in competition geared to product improvements and imitations that is intended to generate competitive advantage. As the supply situation is still not adequate, good, affordable products are much in demand. Customers are quite prepared to seek out and tolerate waiting times to obtain the product. Product orientation is a management orientation which assumes that the availability of good products creates a decisive edge in competition. *The obstacle to corporate success is therefore product development*. The principal symptom of product orientation, which can still be found here and there today, is a pronounced technical culture in the firm, where managers in R&D strive to extend scientific boundaries and lay claim to high status in the firm. Turns of phrase such as "the *gentlemen* in development, the *men* in production, and the *people* in sales" are indicative of the kinds of attitudes existing. A product orientation focuses on the superiority of the product, not the cost, and the quality of the product, not the volume. Long delivery times are seen as an indication of superiority. But a product orientation can sink a firm, if competitors with an aggressive pricing policy imitate or launch similar products on the market, and the supplier is not able to keep the imitators at bay by means of continuous product improvement.

#### 2.2.1.3 Sales Orientation

When supply improves such that several products are available that can satisfy customers, competition intensifies and a stronger orientation towards selling will develop. The reason for this is that buyers will tend to prefer suppliers who make purchasing easier, cheaper, and more agreeable for them compared to others offering similar products. A sales orientation is one in which management assumes that the availability of a good sales team and low prices create a decisive edge in competition. *Sales is thus the area restricting the success of suppliers*. The reason for this situation emerging in Germany was that production plants had been built, and development teams had produced several new products which were available

on the market. However, there was a lack of sufficiently experienced and motivated sales teams, so that the best and most successful suppliers were those mastering production, product development, and sales best. The attributes of a sales orientation are stocks of finished products, the aggressive use of instruments of "hard selling"—the deployment of sales people and trade fairs, and the greater use of advertising, pricing, and credit policies. A firm can founder when pursuing a sales orientation because the means used are expensive and their effect quickly evaporates in a competitive world.

Production, product, and sales orientations constitute orientations to the *functions* of a supplier (what we call a *supplier orientation*). These are quite different from the following stages of development of firm behavior.

#### 2.2.1.4 Customer Orientation

A customer orientation emerged in America earlier than elsewhere. The reason for this lies in the lead time which the US markets had in attaining maturity, i.e., fully mastering the supply of goods to purchasers. Symptoms of "affluence" began to appear (Galbraith, 1958). Success in competition could no longer be achieved through production, product, and sales orientations, meaning that a new approach was called for. Compared with its predecessors, customer orientation represents a complete switch from a focus on the solutions of the supplier's problems in terms of functional bottlenecks to the one that focuses on the customer. Customer orientation is a management orientation which assumes that a knowledge of the customer's requirements and a coordinated marketing effort to manage and meet the customers' expectations generate a decisive edge in competition. The obstacle to increasing success is *the knowledge of customer requirements* and the ability *to gear the offer to the requirements of the customer*. This orientation constitutes the shift to a modern understanding of marketing, as formulated by Drucker (1954), Keith (1960), Levitt (1960), Kotler (1967, 1972), and others.

Modern marketing emerged in other countries, such as Germany, later than it did in the USA, usually starting in consumer goods and then expanding into other areas, including industrial goods and services (Engelhardt & Günter, 2000; Backhaus & Voeth, 2010).

Even though the subject of marketing has developed in many ways in the intervening years, nothing has changed with regard to our basic understanding of the marketing concept (Brown, 1985; Meffert, 2000; Nieschlag, Dichtl, & Hörschgen, 2002). The core of the marketing concept is a radical shift from a production, product, and sales orientation to an approach to business planning that starts with the customer. *Kotler* provides a useful comparison between the selling concept and the marketing concept, as shown in Fig. 2.2.

#### 2.2.1.5 Market Orientation

Customer orientation, as embodied in the marketing concept, represented a break away from a supplier orientation and a focus on function. New ways of succeeding were revealed to firms who took the wishes and expectations, perceptions and judgments of customers seriously, and geared their offers to them.

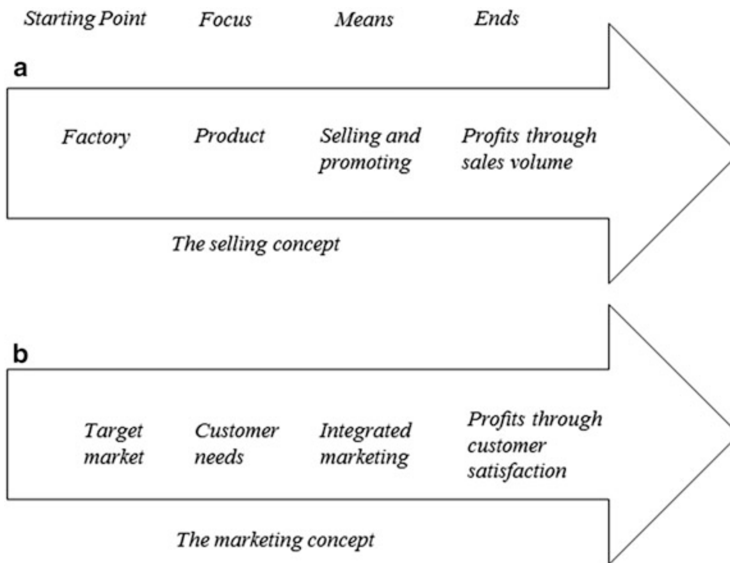


**Fig. 2.2** Selling concept and marketing concept (*Source*: Kotler, 1997)

As competition further intensified, an additional dimension of market orientation was added to the way firms oriented themselves to the market, i.e., a *simultaneous* orientation to customers *and* competition. Whereas, it may have been sufficient to pursue a policy of customer orientation to gain a lead, it is now the *relative* position of the supplier compared with its competitors that is critical. In the first chapter, we described this position as a *customer advantage* from the point of view of the customer. Since customer advantage describes the net difference in benefit between two suppliers, competitor analysis becomes part of customer analysis: the supplier—competitor—customer orientation triangle is the paradigm, which we term market orientation (cf. Fig. 2.3). Competitor analysis through the eyes of the customer is a necessary prerequisite in determining customer advantage. One result of increased competitor and customer orientation is the spreading culture of *benchmarking*, which is the systematic comparison with the best in the sector and the best in a particular function (i.e., best practice).

A firm's market orientation is not the function of a particular department; on the contrary, a market orientation is a *general management task*, a specific feature of running a business unit. Market orientation is a matter for the managing director; it cannot be delegated. The marketing concept has to be developed into the market-oriented management of a business unit (Plinke, 1992). *Market-oriented management* is the current challenge facing companies wishing to gear themselves to the industrial market.

Interim conclusion: As competition increases, different supplier orientations result. The transition from one phase to another is fluid, so that various orientations can coexist, at least for a while. However, the temporal sequence, supply

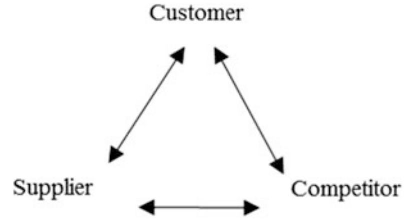


**Fig. 2.3** The "marketing triangle"

orientation → customer orientation → market orientation, is evident. The marketing triangle illustrates this. Whereas focusing on the supplier's own functions dominated initially (supplier orientation), as competition became more intense and markets shifted from sellers' to buyers' markets, it was the turn of the second corner of the triangle—customer orientation. The marketing triangle is complete when the third corner is included: we then speak of market orientation. The marketing concept with its market orientation is the answer to predatory competition and forces management to gear all the processes of the supplying firm to generating customer advantage. Markets are thus developing to the point that customers ultimately dictate the offer. Or, in other words, suppliers who fall behind their competitors in the eyes of the customers will fail without any regret on the part of the customers. The fact that competition is evolving in this way is not based on the behavior of the suppliers alone—customers also contribute to this. Due to competition with regard to innovation, performance, and price, customers are learning that they can continuously demand more. This spiral has no foreseeable end.

We have not discussed *competitor orientation* as a separate type of firm orientation in this section. A symptom of this is unconditional adaptation to the way dominant competitors behave. Such a reactive mode of behavior is not consistent with the marketing concept, but competitor orientation is nevertheless observed in some markets. The principal orientations in competition are summarized in Table 2.1.

## 2.2.2 Customer Satisfaction, Customer Orientation, and Market Orientation as Core Elements of the Marketing Concept

### 2.2.2.1 Customer Satisfaction

The marketing concept is geared towards generating customer satisfaction. A firm that has to compete in a buyers' market exposes its products and services, its sales policy, its communications, in short its entire appearance in the market, to the judgment of the customers. As judge, the customer determines success, growth, stagnation, or failure. Buyers can exercise the function of a judge because they are able to choose among different offers. The more the market offerings resemble one another, the more the customer can exert their power of demand, and the more advantageous the exchange relationships will be for them.

**Table 2.1** Supplier orientations in competition

| | | Are buyers' wishes and expectations taken as the starting point for supplier behavior? | |
|---|---|---|---|
| | | No | Yes |
| Is the way competitors behave taken as the starting point for supplier behavior? | No | Production orientation<br>Product orientation<br>Sales orientation | Customer orientation |
| | Yes | Competitor orientation | Market orientation |

For a supplier, this situation means that it must make more effort to gain and retain customers and that it must be permanently prepared to risk losing old customers to competitors.

Competitive advantages create access to new customers and prevent the migration of old customers. By gearing itself to creating competitive advantages, the supplier must know the problems of its customers well (and possibly better than the competition) and must solve its customer's problem better than any other competitor considered by the customer. Achieving competitive advantages in this sense also presupposes that the supplier is prepared *to make the problems of the customer its own*. Ultimately, this leads to the serious intention to really *satisfy* the customer.

The American mail-order firm *L.L. Bean* formulated a mission statement which is aimed precisely at this point. At the entrance to the firm's head office in Freeport, Maine, is a large plaque, on which the wood-cut message shown in Fig. 2.4 is to be found. This is based on the business principle of the firm's founder, Leon Leonwood Bean (2006), which has been practiced since 1912: “Sell good merchandise at a reasonable profit, treat your customers like human beings, and they will always come back for more.”

A promise of 100 % satisfaction certainly cannot (and should not!) be given by every firm and every sector, but the example shows what competition focuses on in extreme cases. No firm engaged in fierce competition can disregard the job of satisfying its customers for long. There is far too great a risk that other suppliers will offer them greater satisfaction and thus prevail. A customer satisfaction represents the core of the marketing concept. Customer satisfaction is the *North Star* by which we orientate ourselves when navigating through the competition. We have already encountered the principles in the first chapter: Robinson Crusoe can only solve his problems by exchange if he offers things to his neighbors on terms that are advantageous to them. Marketing is a management concept that is successful and profitable for the supplier precisely because it makes offers to buyers that are advantageous to them and ultimately lead to satisfaction. Satisfaction is a phase

**100 % GUARANTEE**

*All of our products are guaranteed to give 100 % satisfaction in every way. Return anything purchased from us at any time if it proves otherwise. We will replace it, refund your purchase price or credit your credit card, as you wish. We do not want you to have anything from L.L. Bean that is not completely satisfactory.*

*L.L. Bean, Inc., Freeport, Maine.*

**Fig. 2.4** Performance guarantee from L.L. Bean

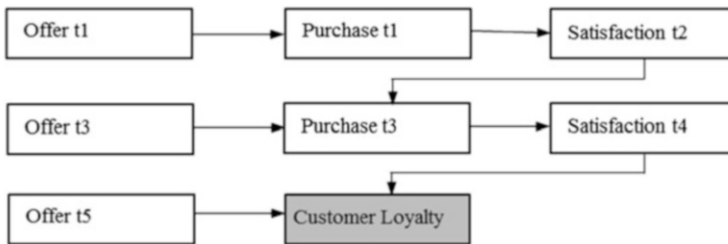


**Fig. 2.5** Customer satisfaction and repeat purchase behavior

in the learning process of a buyer which, if passed successfully, increases the probability of a repeat purchase. Figure 2.5 highlights this.

However, the law of diminishing returns also applies to customer satisfaction. Increasing customer satisfaction costs money and not every performance increase is rewarded by customers in terms of their willingness to pay.

Customer satisfaction has several dimensions. In particular, we can differentiate between (a) satisfaction with fulfillment of the contract, i.e., the product (function, reliability, safety, aesthetics, economic efficiency, etc.) and the service (correct, worth the money, quick, helpful, etc.) and (b) satisfaction with the exchange process (respect, politeness, sincerity, friendliness, understanding, and helpfulness in the event of complaints, etc.). This is summarized in Fig. 2.6.

The basic idea of customer orientation may be simple, but operationalizing and measuring the relevant variables is difficult. To begin with we will use a simple definition: satisfaction is the degree of match between the *problem solution perceived by the customer* and the *problem solution expected* by the customer. It arises as a consequence of the customer's experience of the initial purchase and/or repeat purchase and tends to promote customer loyalty.

#### 2.2.2.2 Market and Customer Orientation

**Market and Customer Orientation in Practice: Examples**

Customer satisfaction is part of customer behavior, and market and customer orientation are parts of *supplier behavior*—manifest in management style and

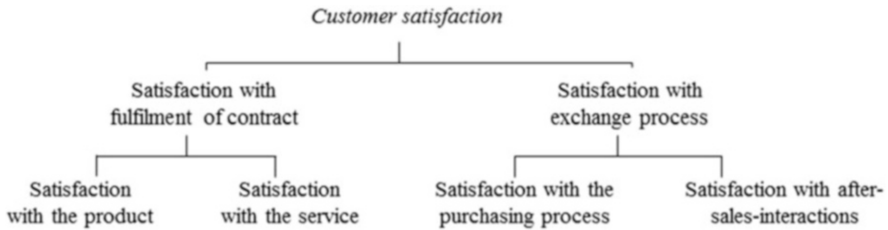


**Fig. 2.6** Dimensions of customer satisfaction

employee behavior. The premise of the marketing concept is that a market orientation geared to customer satisfaction gains the supplier superiority in competition.

Before we finalize a definition of market and customer orientation, we list some of the main characteristics of a market and customer-oriented firm (Aaker, 1989; Shapiro, 1988).

**Characteristics of Market and Customer-Oriented Companies**

A market and customer-oriented firm

[. . .] knows and understands its customers.

- Knows which product and service features are important to the customer and knows what priority they take.
- Knows the customer's *problem*. Understands what drives the purchasing forward or stops it and also whether it is something which cannot be grasped objectively, such as feelings or associations.
- Recognizes unfulfilled needs or problems which arise *in good time* and knows which products or services are not yet (or no longer) the best solution to current and future customer requirements.
- Segments. Forms customer segments (target groups) according to the criterion of the most homogeneous customer advantage possible.
- Senses technological change and the change in its customers' values *at an early stage* and gears its innovation strategy to this.
- Looks for comprehensive solutions (*system solutions*). Recognizes that the customer is interested in integrated solutions and does not simply want to buy a product.
- Knows *who* makes the purchasing decision and who influences it.
- Knows the influence of the specific *purchasing situation* of the customer.

[. . .] listens to its customers.

- Reviews *customer satisfaction* at regular intervals with reference to qualitative instruments and if possible quantitative methods.
- Is open to customer comments. Listens. Suggestions or *complaints* by customers are taken seriously and influence strategy.

[. . .] knows how customers categorize the firm.

- Is clearly *positioned* in the respective segment.
- Knows through systematic market research how the customer assesses the firm's performance in comparison with its competitors.

[. . .] approaches its customers.

- Adopts an *attitude geared* to problem solving in relation to the customer.
- Induces its executives to seek regular contact with customers.
- Does not wait for the customer to come to it. Has indicators and information on which customers are approached *preferentially* (target customers).
- Is always easy to *reach* for its customers. The customer easily finds the contact responsible for them. The firm responds quickly.

[. . .] lives market orientation.

- Defines the content of customer orientation for *every* functional area and every department.
- Sets s*tandards* (performance targets), by which the level of customer orientation can be verified and is verified for each department.
- Installs forms and mechanisms of cooperation between departments and functional areas that are designed to ensure customer satisfaction.
- Recognizes problem areas in customer-oriented cooperation between departments or functional areas. The management is able to solve conflicts constructively.
- Ensures a swift, comprehensive, and continuous flow of information between sales (including market research and service) and the functions of R&D, production, and procurement.
- Realizes customer orientation in *all* functional areas of the firm.
- Has a *structural organization* which is (also) oriented to the objective of ensuring customer satisfaction.
- Has an *incentive structure* which is (also) geared to customer satisfaction.
- Makes customer orientation a part of the value system practiced (*corporate culture*). The top management executives set an example of customer orientation.

[. . .] really satisfies its customers.

- Gives (in the context of its corporate self-image) customers what they want to have or *what they believe they have a right to demand*, how they want it, and when they want it—and at a price which they feel is fair.
- Does not unconditionally give customers what they want, but (only) what they need and what *satisfies them in the long term*.

**What is a Customer?**

| | |
|---|---|
| *A Customer* | is the most important person ever in this office … in person or by mail. |
| *A Customer* | is not dependent on us … we are dependent on them. |
| *A Customer* | is not an interruption to our work … is the purpose of it. We are not doing a favor by serving them … they are doing us a favor by giving us the opportunity to do so. |
| *A Customer* | is not someone to argue or match wits with. Nobody ever won an argument with a customer. |
| *A Customer* | is a person who brings us their wants. It is our job to handle them profitably both to them and to ourselves. |

**Fig. 2.7** Customer orientation at L.L. Bean

- Knows that *quality is synonymous with customer satisfaction* and that therefore quality is not only a production task but represents a permanent challenge to all functional areas (Total Quality Management).

Finally, let us look once again at an example from *L.L. Bean*. Figure 2.7 summarizes how *L.L. Bean* wants its employees to view their customers and, accordingly, how they are to approach customers and practice customer orientation.

It is clear from these examples that what matters for firms is market and customer orientation. In the following section we will explain why market and customer orientation is so important to a firm, what its underlying rationale is, and how market and customer orientation can be distinguished clearly from one another.

### Market and Customer Orientation as Survival Principles

According to the *Behavioral Theory of the Firm*, firms are organizations which consist of coalitions of interest groups (Cyert & March, 1963). Interest groups pursue their objectives partly cooperatively and partly in conflict, and change their objectives over time as changes take place in the coalition structure or in relations with the outside world. The firm maintains both internal and external coalitions. Figure 2.8 illustrates the integration of the firm into a network of external and internal coalitions.

External coalitions are used by the firm to procure vital resources. Survival is surely the main objective of a firm. For this reason the firm must acquire external coalition partners which facilitate the realization of this aim by providing vital

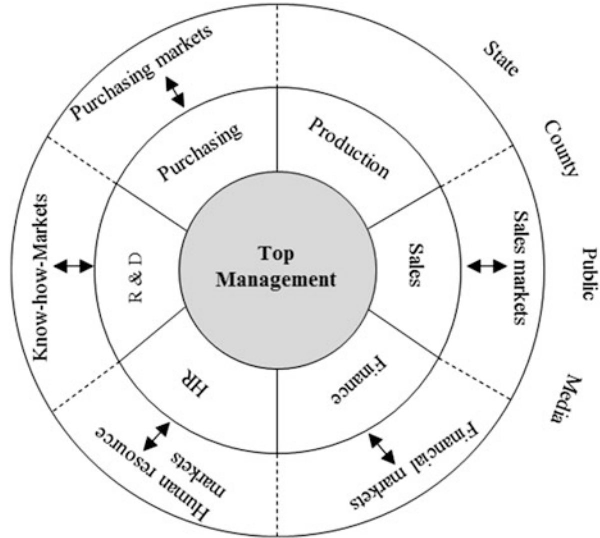


**Fig. 2.8** External and internal coalitions of the firm

resources. Companies are more or less heavily dependent on their relations with customers and suppliers, industry associations, unions, the state, capital providers, etc. The firm thus has to offer various *inducements* to prompt external coalition partners to make appropriate *contributions*. Indeed, it has a vital interest in gaining influence over the external coalitions and developing appropriate relations with external counterparts.

In this sense the survival of a firm can be attributed to its ability to acquire the necessary resources on an ongoing basis through exchange processes with *all* coalition partners. This ability depends on its efficiency and effectiveness. *Effectiveness* in this context is an external performance standard reflecting how well a firm is meeting the demands and expectations of its external coalition partners. *Efficiency*, on the other hand, is an internal performance standard, which indicates the ratio of output to input, i.e., the economic efficiency of resource acquisition. Constant changes in the environment force the firm continuously to secure the short, medium, and long-term acquisition of resources anew.

The firm will gear itself as a matter of priority to those coalition partners who have a *critical* resource—critical in the sense that survival and competitiveness are affected the most by these resources. It may be a matter of, for example, access to technological know-how, qualified executive staff, capital resources, political goodwill, or distribution outlets. Above all it is how such resources impact on a firm's ability to generate customer advantage that determines the value of the resource. Those external coalitions which control a critical resource have a greater influence on the overall activities of the firm than other coalitions.

The marketing concept, as originally presented, focused on shifts in customer demand from one supplier to another as the greatest threat to the firm in the long term. The transition from sellers' markets to buyers' markets was cited as a possible

explanation. But market and customer orientation also have to recognize the requirements of other important stakeholders in the firm, as well as external coalitions that control key resources. These also demand management attention if the firm is to develop and sustain its ability to compete successfully. Management has to deal with the demands of shareholders and investors, who expect interest to be paid at the prevailing market rate on the capital they have invested, and the employees, who are protected by labor law and bargaining rights. External relationships with key suppliers may be critical in creating competitive advantage as well as suppliers of complementary products and services, such as hardware and software suppliers. Or, in sectors with rapidly changing technology, technical know-how becomes a critical resource and requires management to secure access to new ideas and developments through various external linkages. In general, we may argue that companies develop for themselves customer advantage through *resource power* (Plinke, 1992).

### Distinction Between Market and Customer Orientation

Customers make their purchasing decision on the basis of what they perceive to be their subjective advantage. A market orientation causes the supplier to study customer advantage and create the conditions for its realization. A market orientation is thus responding to the customer's interest in the form of a satisfactory solution to a problem and, to meet the requirements of one's own firm, to ensure this solution is provided more cheaply or better than the competition. Anyone who is responsible for the market orientation must implement the marketing concept and herein lies a significant challenge for research in marketing.

In order to test the claimed beneficial impact of market orientation, it is necessary to develop a measure of a firm's market orientation, which has been the subject of much research (e.g., Canning, 1988; Masiello, 1988; Shapiro, 1988; Narver & Slater, 1990; Kohli & Jaworski, 1990; Lingenfelder, 1990, Homburg, 2000; Jaworski & Kohli, 1996; Utzig, 1997). Different types of measures have been developed as the following definitions show:

- Kohli and Jaworski (1990, p. 53): the "organization wide generation of market intelligence pertaining to current and future customer needs, dissemination of intelligence across departments, and organization-wide responsiveness to it."
- Narver and Slater (1990, p. 21): "Market orientation consists of three behavioral components—customer orientation, competitor orientation, and inter-functional coordination—and two decision criteria—long-term focus and profitability."
- Ruekert (1992, p. 228): The level of market orientation in a business unit (is) the degree to which the business unit (1) obtains and uses information from customers; (2) develops a strategy which will meet customer needs; and (3) implements that strategy by being responsive to customers' needs and wants.
- Deshpande, Farley, and Webster (1993, p. 27): "We define customer orientation as the set of beliefs that puts the customer's interest first, while not excluding those of other stakeholders such as owners, managers, and employees, in order to develop a long-term profitable enterprise."

- Day (1994, p. 37): "market orientation represents superior skills in understanding and satisfying customers."
- Homburg (2012) associates customer orientation in the first instance with the dimensions of quality and flexibility in dealing with customers.

What is striking is the lack of uniformity in these definitions. Here we distinguish between customer orientation and market orientation in terms of content.

**Market and Customer Orientation of People**

We use the term *market orientation* to describe the orientation of decision makers who are responsible for implementing the marketing concept in the firm. A market orientation is a characteristic of people's behavior that we can refer to as a *behavioral intention*. A market orientation in this sense is the attitude of a function holder, the enduring intention to take the perceptions and decisions of the customer as a yardstick for acting in competition (Trommsdorff, 1997). The customer advantage causes the function holder to always view acting in relation to the customer in terms of the supplier—customer—competitor triangle. Knowing or anticipating the effect of the competition on the customer and drawing conclusions from this for the activities of the firm is an inseparable part of the marketing task. Thus, we can describe market orientation as *triadic*.[1] A market orientation is reserved for this reason for the "full-time marketer," whose task is integrated customer *and* competitor orientation.

By comparison, most other function holders in the firm are "part-time marketers" to use Gummesson's term (Gummesson, 1991). These people are not primarily concerned with steering the firm through competitive waters but have other priorities and expertise. Nevertheless, in their own way even these specialists make a contribution to solving the customer's problem. This part-time role leads us to a definition of *customer orientation*. The task of problem solution for the customer is broken into subtasks relevant for individual functional areas. We call a set of such subtasks a functional program. A *functional program* breaks the overall market orientation task into parts tailored to different functional areas. The functional programs in turn are translated into *behavioral programs* for each individual employee, including the way they interact with others in the same or other functional areas. Behavioral programs are intended to ensure that the specialists are oriented in performing their functions not only for meeting functional targets but also for solving the customer's problems. The allocation of behavioral programs geared to the customer means that people in the functional areas provide a *certain* service for the customer, which we describe as their customer orientation. If customer orientation is defined in this way for each function holder, then they are not only able to recognize what their part is in solving the customer's problem, they can also decide what they do not have to do, and when they can or even must say no.

[1] Triadic (Greek) = consisting of three entities.

**Example**
A field sales employee makes a considerable contribution to solving the customer's problem by their technical consultancy work. However, it is not this person's job to see themselves in the customer's eyes always in comparison with competitors ("thinking in a triangle"). This would not only overtax them but also prevent them from giving of their best. A "customer consultation" program is thus developed in collaboration between a full-time marketer, who has the overall solution to the problem in mind as a performance guarantee for the customer, and sales. Depending on the overall competitive situation and competitive strategy, minimum tasks are formulated for a field sales employee which they are supposed to perform for their customers. In addition, the maximum extent of a consultation is defined in relation to the overall importance of the customer.

A behavioral program for the field sales employee is therefore derived from the functional program and governs the consultancy work of the employee. The employee can thus be seriously *customer*-oriented without having to be *market*-oriented.

Differences in market orientation thus result from the job content and level of responsibility of the worker. It cannot be expected that every employee in every functional area will always think and act according to the principles of customer advantage. That really would be too difficult. The employee lacks the information and the perspective for this.

The difference between market orientation and customer orientation now becomes clearer. Market orientation is triadic and regulates the behavior of market-oriented management; customer orientation is dyadic and is a functional program for the functional area or a behavioral program for the worker. Market orientation is focused on customer advantage; customer orientation on the other hand focuses on specific customer benefits.

Figure 2.9 illustrates the interplay between market orientation and customer orientation (Utzig, 1997). The length of the bar designated 1 symbolizes the extent of customer demands and expectations. It will only rarely be possible to meet these completely. The planned extent of customer demand fulfillment by the supplier (No. 4) will therefore differ to some extent (No. 3) from the customer's demands.

*Market orientation* focuses on the degree of fulfillment of customer expectations, i.e., the establishment of a target somewhere between the value which the customer sets (No. 1) and the value which the competitor reaches (No. 2). Market orientation determines the boundary between No. 3 and No. 4 and is *triadic* in that the planned performance for the customer is set in relation to that offered by competition.

Once the firm's planned demand fulfillment has been determined (No. 4), *functional programs for all functional areas* and *behavioral programs for all workers* can be derived by breaking the overall performance down into the partial

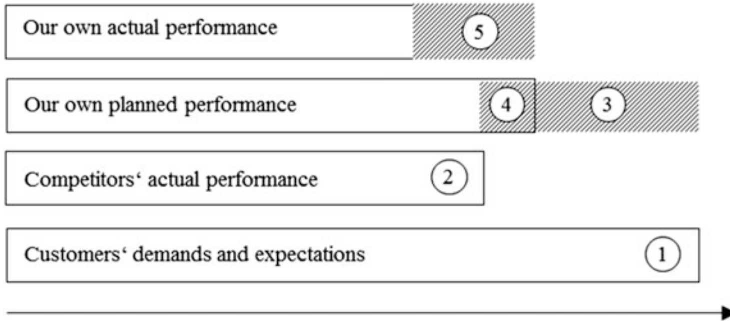


**Fig. 2.9** Distinction between market orientation and customer orientation

performances required. Every partial performance is planned according to its contribution to the planned overall benefit to the customer. The extent to which each partial performance is actually produced, or whether deficits result (No. 5), is thus *measurable* in principle. Customer orientation is the requirement imposed on individual partial performances to orient themselves to *defined benefit objectives* for the customer. Therefore, customer orientation is not competitive but *derived* from a competitive market orientation.

It can be seen from this figure that a firm cannot be "customer oriented" if it has not marked the boundary between No. 3 and No. 4 or derived the corresponding functional programs from the planned degree of demand fulfillment. Establishing this boundary is far from simple. It calls for a decision on what and how much one intends to give the customer but also what one does not intend to give them. Since customers' demands are different, the potential for market segmentation exists, i.e., the identification groups of customers with similar needs and expectations (Kleinaltenkamp, 2002).

A firm that wants to be customer oriented must therefore be market oriented in the first instance and determine the value to be offered according to No. 3 or No. 4. Only then can it establish whether and to what extent the individual functions have made the necessary contributions, i.e., whether customer orientation exists to the required extent.

In addition, customer orientation is an understanding of the *role* the supplier assumes in relation to the customer. This is a serving role, not just services in the narrower sense but generally in every exchange relationship. This requirement is often misunderstood. Only suppliers who can dictate the terms of the transaction themselves can afford to be arrogant. If the decision to buy or not is up to the customer, a serving attitude will certainly be more in the interests of the supplier. But there is another, rather more fundamental aspect. Serving can be seen as demeaning in the sense that we do not wish to be a "servant."[2] But those who

[2] Regarding reservations against serving, cf. the penetrating analysis by the American economist Veblen (1899): "We are deeply convinced that a formal uncleanness, as it were, is attached to

think this way have not only misunderstood the market process, they have misunderstood the difference between changing roles and social status. The supplier is not serving his customer because the latter wants a servant, but because they want to find a solution to their problems. The serving role of the supplier is a problem-solving role.

**Market and Customer Orientation of the Firm**

Let's do a test and ask ourselves whether a certain firm we know is market or customer oriented. We soon discover that we don't get very far with the previous distinction between market and customer orientation. The market and customer orientations of the firm are not behavioral characteristics of people; on the contrary, we need to ask about the principles and structural features of the overall *corporate process*.

A firm will not become market or customer oriented unless a genuine corporate policy decision is taken at the top decision-making level to make the customer the starting point and end point of the entire enterprise. A *commitment* of this kind is a strategic decision which affects the firm and everyone in it to the core. The self-image of the firm as a whole and the relative importance of its values are called into question and possibly even turned upside down. Market and customer orientation has to be seen as part of the mission of the firm, which is understood and adopted by everyone. This in turn leads to targets that are not entirely of a financial nature, but give top priority to satisfying the customer. From these objectives, it is then possible to develop *competitive strategies* in the markets serviced, which are translated into *functional programs*. The orientation to the customer and to the solution of their problems becomes embedded in the structure and operations of the overall organization.

We must be careful therefore to distinguish between the behavioral characteristics of people on the one hand and the structural features of firms on the other. Table 2.2 summarizes the characteristics of market orientation and customer orientation in people and firms.

### 2.2.3 Conclusion: What Is Marketing?

Marketing, for a firm (marketing management), is defined as "the planning, coordination, and control of all corporate activities geared to current and potential markets. Corporate targets are to be realized through the long-term satisfaction of customer requirements" (Meffert, 2000).

those occupations which we normally associate with service. Refined people firmly believe that certain lowly jobs [. . .] must also be spiritually infectious."

**Table 2.2** Market orientation and customer orientation of people and of the firm

| | People | Firm |
|---|---|---|
| Market orientation | Business mission, behavioral orientation, attitude<br>Focused on analysis and realization of customer advantage<br>Triadic<br>"Full-time marketer"<br>Job of business unit management | Principles and structural features of business process<br>Comprehensive management task; includes all functions at all levels<br>Geared to superiority in competition<br>Customer advantage as target variable<br>Strategic commitment<br>Job of business unit management |
| Customer orientation | Behavioral program for each individual employee<br>Fulfilment of own function with regard to a specific customer benefit<br>Dyadic<br>"Part-time marketer" | Systematic translation of competitive strategy into functional strategies and functional programs<br>Translation of functional programs into behavioral programs for each employee |

This generally accepted definition makes the following clear:

1. The supplier realizes its objectives by satisfying customer requirements. Producing customer satisfaction is equivalent to solving customer problems. Marketing means orientation to problem solving.
2. Marketing means orientation to the market. By its nature marketing management includes market orientation and customer orientation. Market orientation is geared to transactions with current and potential customers.
3. Marketing represents a large number of activities: marketing is a process. This does not exclude the possibility that marketing can also be institutionalized and that a firm has a marketing department, for example, or a corresponding project team. But marketing should not be understood as one unit in the organizational structure.
4. Just as competition can only be defined within a specific market arena, so too can the role of marketing only be defined in relation to a specific competitive arena. Customer needs vary, and to ensure customer satisfaction, it is necessary to segment customers and to pay close attention to business relationships and to important individual transactions.
5. Marketing in the firm involves the analysis, planning, coordination, and monitoring of market-oriented activities. Marketing in the firm is a management process. Marketing means directing the activities of the firm or the business unit within the competitive environment, with the aim of securing its survival in the arena in question.

The definition of marketing reveals three levels of meaning which together make up the role of marketing in a firm:

- The meaning of marketing as a "*Marketing Philosophy*"—signifying customer orientation and the associated principle of making profits by satisfying customer

needs. This "philosophy" is aimed at achieving market exchanges for the mutual advantage of seller and buyer.

- The meaning of marketing as a "*Marketing Technique*"—signifying the analysis of marketing tools and their effects, i.e., the methods and tools for gathering, processing, and analyzing information and improving decision making.
- The meaning of marketing as a "*Marketing Management Concept*"—signifying the processes of analysis, planning, implementing, monitoring, and controlling of the value-creating activities between supplier and customer, in which the supplier adopts the active role.

All three levels form part of modern marketing in the firm. We can now attempt to paint an overall picture which brings together these essential aspects of marketing. For this purpose, we will use *Porter's value chain* (Porter, 1999). In this model, the firm is seen as a collection of different types of activities that are linked together. We will not go into the details of his model at this point. Instead, we focus on the depiction of the selling firm as a chain of processes involving different activities.

Just like the seller, the buyer's firm can also be depicted as a value chain. Seller and customer are therefore two linked chains of activities. This image now enables us to describe a *third process* which links together the process chains of the supplier and customer—the supplier's marketing. Figure 2.10 illustrates this.

The marketing concept prompts the supplier to develop its competitive orientation from the customer's process chain. This involves understanding the customer and its processes and how the customer perceives competitors. It also includes integrating this knowledge into the suppliers own process chain (upper arrow).

The marketing concept requires that the supplier adapts its offer to meet the wishes of the customer and strives to secure the customer's acceptance (lower arrow). The two arrows together make it clear that *marketing is a process which ensures that the processes of the customer and the supplier are harmonized*. Marketing is the engine, gearbox, and steering mechanism of a mutual process of harmonization. The supplier's process must "fit" with the customer's process in the sense that the supplier's offer as a whole enables the customer to organize its own processes more advantageously. The marketing concept suggests that it is the supplier who adapts to the processes of the customer, rather than the other way round. However, this does not rule out the possibility of the supplier pursuing the targeted management of customer expectations.

So that marketing is able to harmonize the two value chains, it is necessary to ensure that the right conditions exist on both sides. On the supplier's side, marketing formulates the harmonization objectives with this aim in mind and communicates these to all parts of the firm. Marketing also ensures that in its own specialist departments, the objectives are understood and implemented in such a way that each unit can recognize and make its own contribution to harmonization. Marketing must identify and work towards the solution of any interface problems which arise in the course of this.

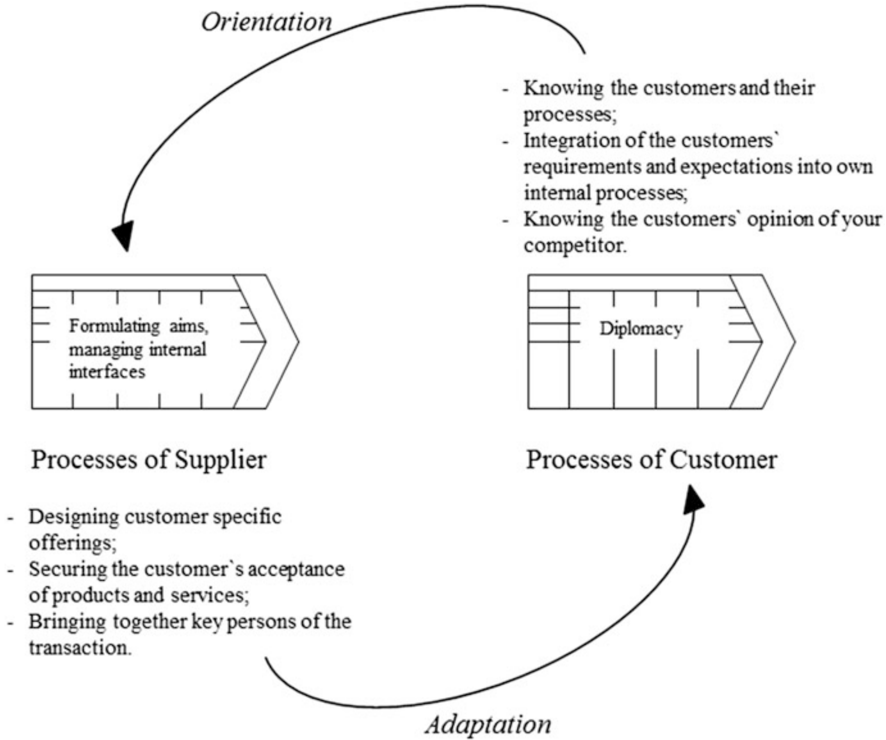


**Fig. 2.10** Marketing as a process of supplier and customer harmonization

Interface problems and potential conflicts occur between supplier and customer and must be recognized and managed. This can take the form of "Project Management" in the case of large single transactions or "Relationship Management" in the business relationship between a supplier and customer. Both involve communication with the decision makers in the customer's firm and bringing together the right people from each firm so that not only is the correct understanding generated but also that the "chemistry" is right. We refer to this task as "diplomacy."

## 2.3 Marketing as a Management Task

### 2.3.1 Process Structure of Marketing Management

#### 2.3.1.1 Phased Procedures in Marketing

The marketing process may be described as a sequence of stages as illustrated in Fig. 2.11. However, in practice these stages may not be followed in this order and a firm may jump backward and forward and skip stages.

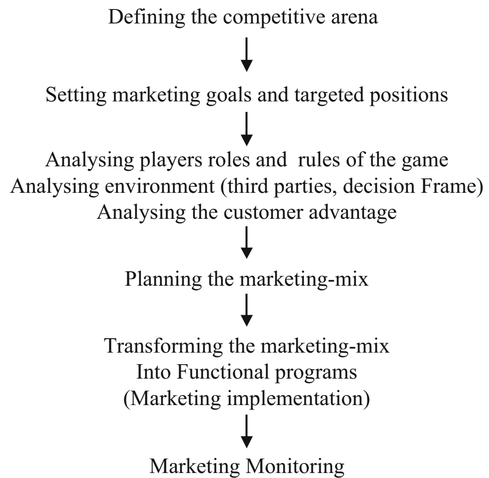


**Fig. 2.11** Phases of the marketing process

We begin with the *definition of the competitive arena*. This is the context in which the competitive process takes place. It is defined so as to focus on the essential elements and derives from the way the "competitive problem" facing the supplier is viewed. This may be a situation in which a supplier has a lead over competition or when it feels challenged by a competitor.

The second phase of the marketing process involves establishing marketing objectives. *Marketing objectives* derive from a firm's overall objectives and are broken down into appropriate sub-objectives. Without objectives, monitoring and therefore marketing aimed at increasing effectiveness and efficiency are impossible. Especially important is the definition of objectives in terms of the desired competitive market position. Here, market share is relevant, but also important is the positioning of the supplier relative to competition in terms of quality and price.

The planning of marketing action involves a careful analysis of the parties involved, in order to identify a competitive position which is as advantageous as possible for the supplier. Hence the third step in the marketing process consists of identifying those with whom one can collaborate in the arena. These include:

- Other businesses of the supplier itself
- The target customer(s)
- The competition

Every competitive situation is characterized by a triangle of involved parties, in which two parties are attentive to a third and the outcome of the market transaction is decided by the interplay between the three parties.

However, another factor is that the parties involved may change their roles over time and even play more than one role at the same time. As a sector develops competitors may become customers, customers may become suppliers or competitors. The complex patterns of *strategic alliances*, *mergers*, and

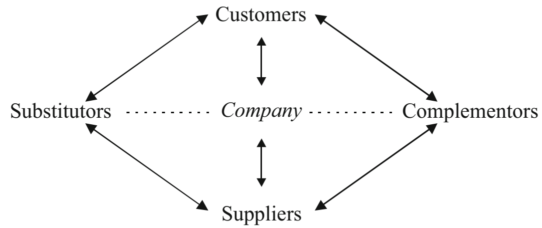


**Fig. 2.12** Parties in the arena (based on: Brandenburger & Nalebuff, 1995)

*acquisitions*, characterizing many global markets in recent times, force to take a new view of competition. We talk about the *players*, who are involved in the *arena*, and the *roles* they play or might play, especially whether they are to be regarded as opponents, as partners, or as neutrals as far as the supplier's objectives are concerned.

Figure 2.12 shows an expansion of the competitive arena from three to five types of players. All the players in the arena are competing for the same thing: to create and acquire value. There are the customers and suppliers of the firm as well as the players with whom the firm interacts, but with whom it enters into no transactions. These are the "substitutors" and the "complementors." The former are competitors in the conventional sense. The latter are suppliers of complementary products or services, such as hardware and software suppliers. Faster hardware will increase the customer's readiness to pay for more sophisticated software, etc.

The analysis focuses the motives and interests of the players, the roles they play, as well as their capabilities and resources, activities, and products. The supplier seeks to occupy a position that is as advantageous as possible for itself within this context.

In a business arena, certain commonly understood *rules of the* game are likely to exist that have developed over time. These are patterns of behavior among customers and suppliers that determine the conditions for success and who will be the winners and losers. Examples include:

- The way in which orders are placed by certain important customers, e.g., private contract, closed-bid tendering, favoring certain groups of suppliers
- The timing of launches of new product generations, e.g., first-to-market strategies
- The creation of de facto standards, e.g., dominant technical design standards, e-trading, and software systems
- A focus on certain marketing tools, e.g., financial engineering in turn-key business and price leadership from a dominant supplier.

An analysis of the rules of the game is important because adhering to them or consciously changing them can have a marked influence on the competitive position of the supplier.

Finally, the analysis includes a consideration of the relevant environment. This includes relevant laws and regulations (e.g., trade practices legislation,

environmental protection legislation), as well as institutions, organizations, or people who have an impact on competition in some way, such as government agencies, pressure groups, and industry associations. In the competitive arena, as in a sport, there are “spectators,” who are not passive but who, consciously or not, have an influence on the market process and are therefore part of it. We will call them third parties. *Third parties* are players who have an effect on the outcome of market transactions without being participants. Examples are consultant engineers, standards institutions, organizers of trade fairs, and the media.

Knowledge of the players, the rules of the game, and the environment enable the supplier to identify a potential winning position(s) which is defined in terms of establishing appropriate *customer advantage*.

*Planning the application of marketing tools* or what is termed *the marketing mix* (Borden, 1964) concerns the design of the exchange relationship with potential customers. In a buyers’ market, suppliers can only effectively pursue their interests by understanding how to match the wishes and problems of potential customers with their own interests. This is done by designing an appropriate marketing mix using various types of marketing tools including products, brands, packaging, services, distribution, communications, pricing, credit, and contractual terms. The aim is to seek the most favorable relationship possible between the return achieved and the performance provided to customers.

Achieving an advantageous competitive position involves coordinating and orientating the activities of all functional areas aimed directly and indirectly at the customer. This phase is usually referred to as *marketing implementation*. This phase is inward looking. It includes the translation of the marketing mix into functional programs and coordinating the execution of functional programs with respect to the customer’s expectations.

Finally, *marketing monitoring and control* involve measuring the effects of a firm’s marketing actions including both those aimed at the market and those relating to internal implementation tasks and *comparing actual results with predetermined targets*. The comparison of actual results with targets is the basis for learning more about the market and of the firm’s own internal operations and provides the basis for improved planning of future marketing action.

### 2.3.2 Marketing Management as a Closed-Loop Control System

Marketing management may be depicted in terms of a feedback control process or *closed-loop control system* like any cybernetic system. The supplier is the controller and the customer’s process generates the control loop (see Fig. 2.13).

The *reference variables* here are the firm’s *marketing objectives*. The supplier enters the competitive arena with one or more objectives that may include market share, levels of turnover and profit, achieving a particular market position (e.g., a level of awareness or distribution intensity), the level of customer satisfaction, the continuation of a business relationship, or securing a particular order at a certain

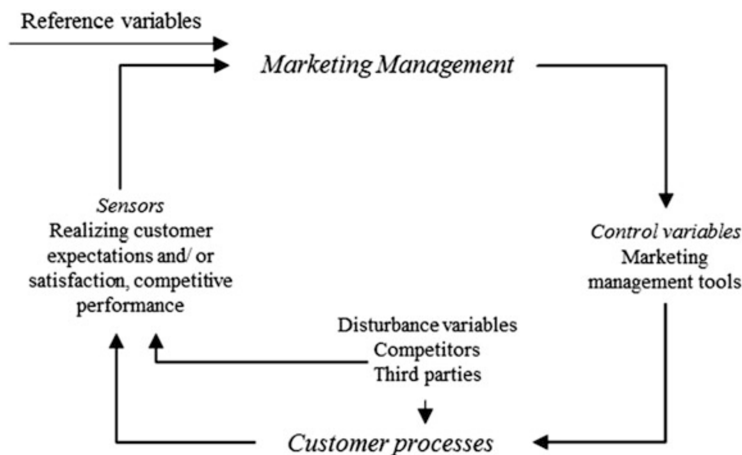


**Fig. 2.13** Marketing management as a closed-loop control system

price. These objectives form the control mechanism for all actions taken by the supplier in the arena.

The *controller* (marketing management) is the decision-making unit which steers the marketing process. It may be top management, it may be a functional director such as the Sales Director, or it may be the manager of a staff department reporting to top management or to the Marketing Director. It is irrelevant for our description of the marketing management process which unit in the firm actually fulfills the role of controller. Without such a controller we cannot speak of marketing.

The controller gathers information about the state of the competitive arena; about purchasers, distribution systems, and competitors; about third parties and their influence; and about the overall economic and social environment in which the players operate. The information sources the controller uses are their *sensors*. These include the firm's own field force, the systemic acquisition of information from the media, the use of trade fairs, databases, information services, and—last but not least—the firm's own market research resources. In this way, the controller finds out how its offer is perceived by the market, about the activities of competitors, and how they are regarded by target customers.

Usually some gaps between actual and desired outcomes will be identified that call for action. The supplier uses various tools or *control variables* to try to improve the situation. Two groups of marketing management tools form the marketing mix. The first group comprises tools which determine the content of the offer. These are (1) the range of products and services provided (including the design of the product, product range and services, and possibly credit services) and (2) the pricing policy and the contract policy. The second group consists of those tools with which the supplier facilitates and brings about the conclusion of a contract with his customer. These are (3) the distribution policy and (4) the communications policy. Figure 2.14

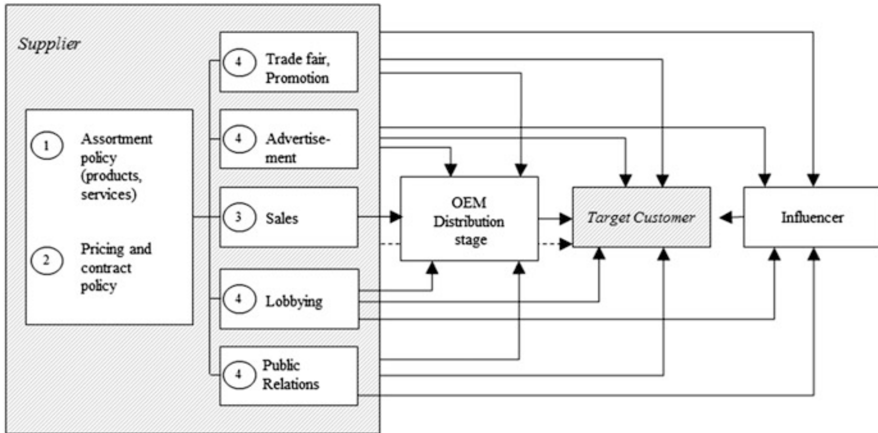


**Fig. 2.14** Tools and levels of effect of the marketing mix in business-to-business marketing

illustrates the organization of the tools into a system and the levels at which they exert an effect.

In addition to the supplier's control variables, other factors affect the control loop, called *disturbance variables* ("*noise*"). These include the tools competitors use to influence the market process. Third parties can also have an effect on purchasers (cf. the "influencers" in Fig. 2.14). Examples include consultants, technical journals, and scientific institutions. Finally, the general public can also play a role and, on occasion, can exert considerable pressure on suppliers in the form of boycotts and protests. Examples include environmental protection groups affecting demand for certain types of products and publications trying to influence purchasers by identifying firms that pollute or have questionable employment practices.

The system is a closed loop and movement around is continuous. The controller is part of the firm and is part of a closed-loop control system at a higher level. The linkage of the controller to higher level control loops in the firm is the means by which *changes in the reference variable*s occur, as corporate objectives and strategies change. So far we have not considered the supplier's internal or in-house processes. These processes can be described also as a closed-loop control system. The in-house control system describes a management task that, in contrast to the external control system, relates to directing in-house processes. It comprises the activities of all the people and departments in a firm that influence customer value creation, directly or indirectly. It may include participating subcontractors or joint venture partners, but not people within the customer's firm. The in-house processes include not only those activities that take place up to the time of the transaction but also include after-sales services provided to the customer (Fig. 2.15).

Marketing management as the *controller* develops marketing objectives that describe the desired state of the in-house control loop (*reference variable*). These

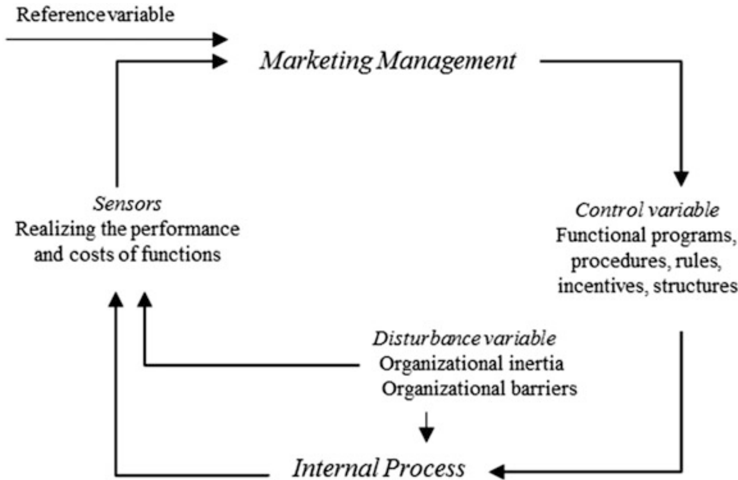


**Fig. 2.15** The in-house closed-loop control system of marketing management

objectives are performance objectives for the in-house process which are derived from customer expectations and also from top management expectations. In terms of the dimensions of competitive advantage (Sect. 1.4), we can distinguish between effectiveness targets and efficiency targets. Focusing on customer expectations leads to the specification of *effectiveness targets*. *Efficiency* targets are aimed at the requirements of the own firm, including keeping within cost budgets and achieving profits.

The *control variables* of the internal control system are those measures which marketing management uses to influence the process in the desired way. These include the functional programs worked out and agreed jointly with functional divisions. R&D, Development, Production, Logistics, Sales, and so on make different *contributions* to achieving effectiveness and efficiency targets and, as a result, objectives need to be divided into appropriate and measurable performance variables. Control variables also include the usual types of management tools, such as procedures, rules, agreements, and incentives. Finally, the establishment of an organizational structure is also a control variable.

*Disturbance variables* ("*noise*") in the in-house control system do not come from outside the firm, but from within. The control loop is affected by the degree of *inertia* of the system. This includes organizational resistance and personal resistance by management and employees which leads them to be distracted, unwilling or unable to perform as required.

The *sensors* of the internal control system are the feedback and monitoring systems in place. The control of effectiveness is based on the quality standards attained; the control of efficiency relies on the in-house accounting system and measures the profitability of a process in comparison with the specified targets. Performance feedback is the starting point for the readjustment of target variables.

Marketing management comprises both an external *and* an in-house control system that have to work in combination. How these two control systems are coordinated is discussed in a later section. First, we focus on two other important issues. Directing the external control loop raises the question of how *customer satisfaction* can be "managed." Management of the in-house control loop is based on influencing the *market and customer orientation* of employees and managers or of the entire business unit.

### 2.3.3 Management of Customer Satisfaction: The External Loop

Customers are satisfied when they have the feeling that they have made the right purchasing decision. The precondition for a purchasing decision is the existence of a customer advantage, i.e., a positive difference in the perceived cost–benefit ratio between the suppliers considered when making the choice. Customer satisfaction is achieved when the customer advantage experienced is the same or better than that originally expected before the purchasing decision was made. Customer satisfaction therefore depends on the gap between actual experience and expectations.

The supplier can influence both the customer's experience and their expectations, to some extent, by means of the marketing mix. In this way they affect the satisfaction of the purchaser. Through the use of various marketing tools, especially the communications program, the supplier can influence the expectations of the purchaser, and it can guide the experience of the purchaser in all phases of their encounter with the product or the service (i.e., acquisition, implementation, utilization, and disposal). The supplier creates customer experience through its activities that confirm, exceed, or fall short of the customer's expectations, and this affects their degree of satisfaction or dissatisfaction.

Customer satisfaction is generated through the interaction of controllable (marketing mix) and uncontrollable factors. The latter include changes in the attitudes and behavior of the purchaser, changes in the conduct of competitors, and changes in the environment.

As far as the supplier is concerned, customer satisfaction means matching the customer's experience with their expectations—taking into consideration uncontrollable factors. The central task of the supplier is to satisfy the customer so that they will buy again and talk about their experience in positive terms with others, i.e., generate positive word of mouth communication. In markets characterized by long-term business relationships or by brand or supplier loyalty, customer satisfaction is a key focus of attention for marketing management.

Figure 2.16 provides an overview of the satisfaction generation process. Using this we can identify the most important factors determining customer satisfaction and highlight the options open to marketing management to shape satisfaction. The diagram depicts the series of stages involved on the customer's and the supplier's side. Each stage has a potential impact on customer satisfaction and the arrows indicate the direction of the effect.

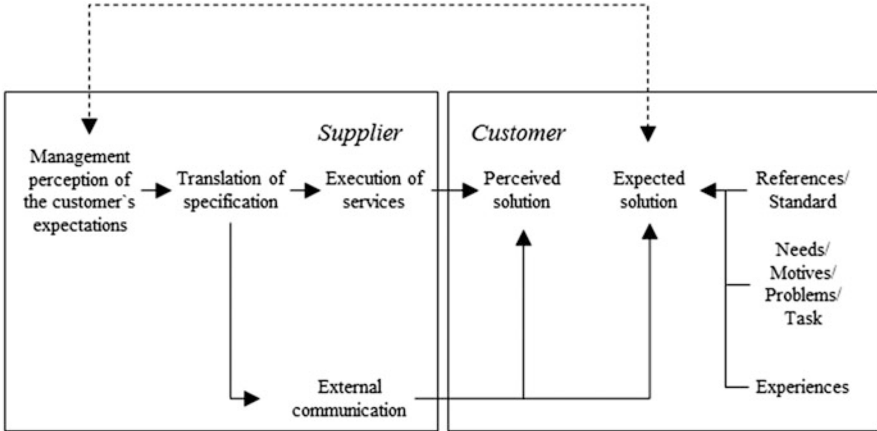


**Fig. 2.16** Determinants of customer satisfaction from the supplier's and customer's standpoint (based on: Parasuraman, Zeithaml, & Berry, 1985)

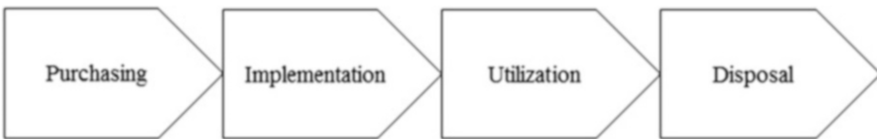


**Fig. 2.17** Customer's process chain

Let us first consider the customer and its expectations. The customer has a certain problem to solve (cf. Sect. 2.2.1.1) and wants to solve it with the supplier's assistance. The customer wants to bring about a change in its firm, and the supplier can affect any stage of the customer's buying and using process chain through the products and services it offers, i.e., the exchange process and the transaction, implementation, utilization, and disposal (Fig. 2.17).

The customer decides whether to use a particular solution to its problem based on the overall reduction in cost and/or the increase in performance it can achieve across all stages of its process chain.

The supplier promises the customer a solution to its problem and thereby creates expectations. Customer's expectations are also formed independent of the supplier due to the nature of the problem faced and the customer's ideas about how it wishes to solve the problem. These ideas will, in turn, be affected by the customer's past experience. Other factors affecting expectations include any relevant industry standards or customs, what other suppliers are offering, and how such offerings are perceived by the customer.

The supplier develops an understanding of the customer's expectations and translates these into market performance specifications and then into a means of communicating the offer to the customer. The customer purchases the product and/or service, evaluates it, and compares the actual experience with their

expectations. The match between the two determines the level of satisfaction or dissatisfaction.

The supplier has various ways of affecting the match between the customer's evaluation and expectations, but we will not go into these in detail here. The main point is that the customer can be influenced by the supplier. If the supplier creates unrealistic expectations through its communications, the customer will be disappointed and, if the supplier creates very low expectations, the customer may not buy. Management of customer satisfaction therefore involves creating the appropriate customer expectations. Important factors here will be the impact of earlier purchase experiences and the influence of the competition. The *implementation* of the offer then results in the perceived solution, if the supplier makes no mistakes. However, it should be recognized that a large measure of subjectivity may be involved. Customers' expectation can change even after a purchase has been made as a result of changing circumstances. For example, competition could announce a new generation of products to be introduced shortly, which could change customers' expectations and adversely affect their satisfaction.

The measurement and management of customer satisfaction in industrial firms raises certain questions of methodology which we can only touch on briefly here (Homburg, Rudolph, & Werner, 1997). The important thing is that an attempt is made to measure customer's satisfaction or dissatisfaction. Customers may be questioned directly in the form of a satisfaction study, or indirect methods can be used. One way is through the systematic analysis of customer complaints and analyses of lost orders. One thing is certain: if a firm does not regularly monitor the satisfaction or dissatisfaction of its customers, the closed-loop control system is no longer a closed loop and the marketing concept has not been followed.

*In sum we can state*: Marketing management is responsible for directing the customer's purchase and use process. The most important criterion for success is lasting customer satisfaction, and marketing management is the management of customer satisfaction.

### 2.3.4 Management of Market and Customer Orientation: The Internal Loop

#### 2.3.4.1 The Interface Problem

At first glance, everything seems quite simple. We know what matters—the customer is to be satisfied—so let's do it! Of course, there is a cost involved. But benefits will be gained in return. So far, so good. But that is when the difficulties start.

Marketing is a team game. For a team to achieve its objectives, it needs a will to win more than the player needs it. In soccer, it is not enough to put the eleven best players in a country together and have them run around after the ball. This alone will not create a "champion" team. To produce excellent results in competitive markets, a large number of heterogeneous internal people and resources have to be controlled and coordinated. In this section, we can only give an overview of how

this occurs, especially as research in this area is not as well developed as it is in the investigation of the customer's process (Utzig, 1997).

Our starting point is the division of labor in the supplier firm. *Adam Smith* was the first to recognize, in 1776, the productivity-enhancing effect of the division of labor and specialization, and this contributed to the wealth of nations (Smith, 1776). The reasons for this are well enough known. But the division of labor has its price. Dividing up work leads to the problem of coordinating work. It results in the formation of sections and departments devoted to specific tasks and therefore requires systems of coordination and integration. The division of labor is based on separating the overall task, that of providing the solution to the problem demanded by the customer, into subtasks which, once solved, have to be fitted together. The division of labor gives rise to the problem of organizational interfaces. These are "the transfer points provided between those responsible for subtasks" (Brockhoff, 1994) and may be horizontal or vertical. Horizontal interfaces are transfer points between two units on the same hierarchical level, whereas vertical interfaces are transfer points between two units on different levels of the organization. Transfers can relate to information, physical goods, financial resources, or rights. Transfers need coordination, i.e., the "arrangement of interactions and information for the goal-oriented completion of the task as a whole when work is divided" (ibidem). Interfaces are therefore an unavoidable aspect of task completion when work is divided.

At interfaces, obstacles to transfers arise. Just as the required capacity is assured at interfaces in engineering by means of engineering design, the same applies to organizational interfaces. In the case of market orientation, an additional factor is that organizational interfaces consist of human beings. And people bring with them their own (often quite divergent) interests, predispositions, perceptions, and their limited information-processing capacity, all of which affects the efficiency and effectiveness of interfaces. The management of human interactions and relationships across organizational interfaces is one of the main issues in the management of market orientation.

The issue of transfers has two kinds of effects. Firstly, costs arise. In addition to the planned costs of transfers and coordination, unplanned costs occur in the form of planning errors, loss of time, the cost of capital tied up, the distortion of information, inconvenience, and loss of motivation. The more horizontal interfaces there are among functional specialists, the higher these costs become, the more ponderous the whole firm becomes, and the more difficult it becomes to adapt the whole firm to the market. This applies equally to vertical interfaces. They cause (usually invisible) costs in the form of the extension of supervisory structures (e.g., "*Parkinson's Law*"), the distortion of information as a result of it being passed up and down within the firm, inflexibility, and longer decision-making times.

Secondly, the problem of interfaces affects the customer. The lead times experienced by the customer, costs resulting from shutdowns due to product defects, bad service experiences, and the trouble and expense of making complaints will all impact on the customer's evaluation, and this ultimately affects the supplier's

returns. Interface problems are therefore a drain on the efficiency and effectiveness of the supplier firm.

Such coordination costs can far outweigh the productivity-enhancing effects of the division of labor and specialization. This is especially the case as the pace of change in society and technology is increasing, calling on companies to adapt with increasing speed. The complexity that emerges from a very large number of interfaces can no longer be justified in the light of the turbulence of the markets. Simpler, leaner structures are therefore emerged to assist market and customer orientation.

As interfaces are unavoidable, the important thing in managing a firm's market orientation is to achieve the correct arrangement of interfaces and to manage them properly. A functional division of labor, which was the traditional approach to the organization of an industrial firm (Taylor, 1914), arose due to technical and economic circumstances. But in this form of organization, market orientation has to deal with the problems of coordination and transfers among divisions or units with often quite different cultures, such as R&D, Production and Sales (cf. Fig. 2.18).

Within a functional division, integration is easier because there is a common objective. Between functional divisions, objectives can differ considerably, and the *cross-functional* integration required for customer satisfaction becomes difficult to accomplish. Marketing—as the customer's agent, so-to-speak, in the firm—tries to ensure that the subtasks taken on by departments and functional divisions are integrated *to the benefit of the customer* (Shapiro, 1988, Plinke, 1998). This requires a different perspective, one not focused on functions and hierarchies but on the business processes involved in solving customers' problems.

### 2.3.4.2 Levels of Market and Customer Orientation

The management of market and customer orientation focuses on the control of interfaces. In our discussion so far we considered the interface problem as a "cross-

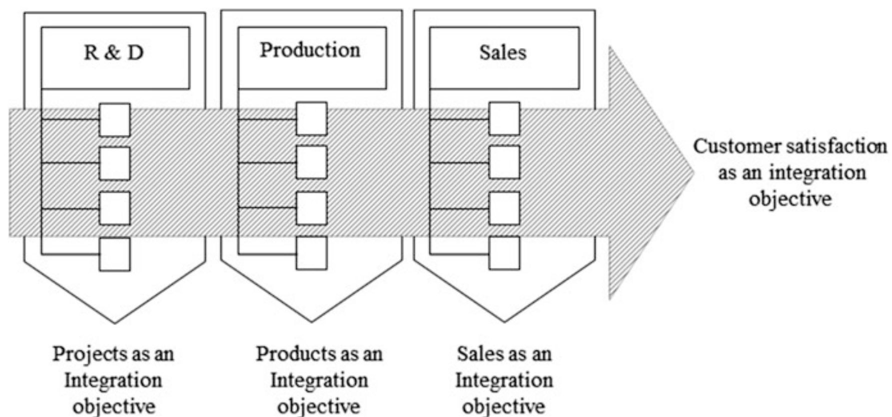


**Fig. 2.18** Interface management in the functional division of labor

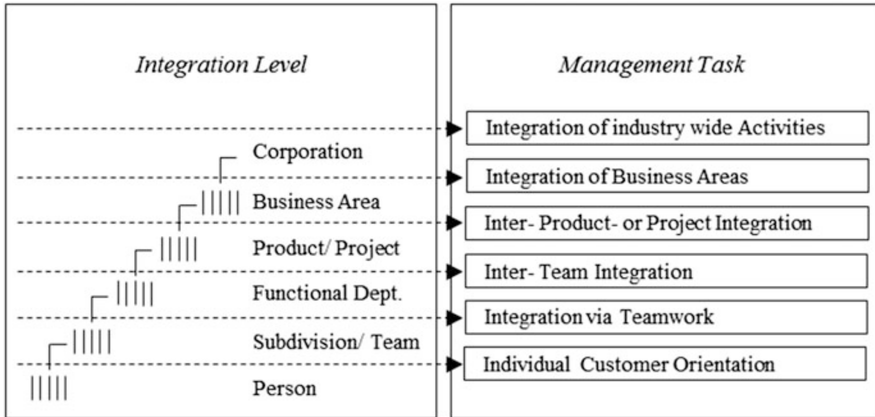


**Fig. 2.19** Integration levels of market orientation (*Source*: Plinke, 1998)

functional" management task. Now we take a more general look at the interfaces that could interfere with ensuring customer satisfaction. It is, of course, not only functional divisions with their varying objectives, cultures, experiences, concepts of value, and egoism, which may present problems, but it is also *type of interface that* must be considered.

Figure 2.19 presents an overview of the various levels of market orientation in a firm. Listed on the left are the levels of integration related to the various types of interfaces. On the right are the corresponding tasks of market orientation at each level.

The diagram should be read from the bottom upwards. *People* are grouped together into teams or departments. If a task as a whole, such as the preparation of a quotation, is assigned to a team or a department, interfaces are created. These generate the need for transfers and therefore create potential sources of breakdown. The main concern is that information will be lost, priorities will be incompatible, or conflicts will arise in the workplace. As a consequence, the customer could receive a quotation which is incomplete, contradictory, or incomprehensible or that may arrive too late. Customer orientation requires the integration of the individual activities with regard to the task as a whole. If several *departments* or *teams* within a functional division are involved in solving the customer's problem, the need arises to integrate their activities. Trade-offs may be required among competing objectives of integration—the overriding priority being customer orientation (Fig. 2.20).

The problem of integrating different *products* or *projects* into business units arises if customers wish to buy several products or services from one source. When the customer buys from different product ranges, the different divisions involved become painfully aware of the interface problems created. "Whose customer is this?" "Who claims the sale?" The supplier that has adopted a product-oriented organization experiences interface problems in this situation that impede growth

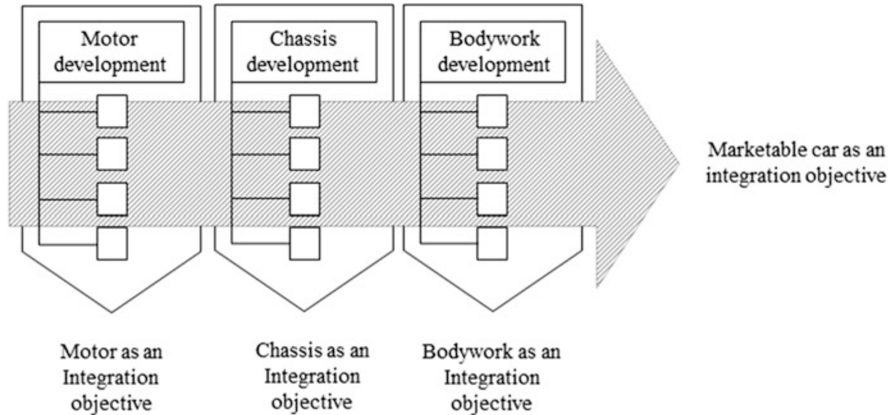


**Fig. 2.20** Managing interfaces in development teams

and drive-up costs. The main reason is divisional suboptimization, particularly in companies relying on incentive systems focusing on business unit profit. Suboptimization results in the division at the expense of other divisions and the performance of the firm as a whole.

Interface management issues arise also in the integration of business divisions, as when customers demand complex total solutions involving the collaboration and coordination across several business divisions. Finally, interface management issues arise *between firms* when several firms jointly solve a customer problem, e.g., when a turnkey project in connection with industrial plant is realized jointly by several firms, or when suppliers, subcontractors, distributors, and others are involved in creating and delivering value to customers.

From the foregoing discussion, we see that, at all levels in the firm, from the interpersonal to the firm as a whole, there are coordination and integration tasks which impact on a firm's ability to be market oriented.

#### 2.3.4.3 "Kotler's Law": What Are the Factors Opposing Market and Customer Orientation?

*Kotler* identifies three basic types of problems limiting a firm's market orientation that arise from intra-firm processes. These are:

- Organized resistance
- Slow learning
- Fast forgetting (Kotler, 1997)

"*Kotler*'*s Law*" is a headache for every firm striving for greater market orientation. A firm that demands market orientation from all its employees and managers will have to deal with resistance whether organized or not for various reasons. In a

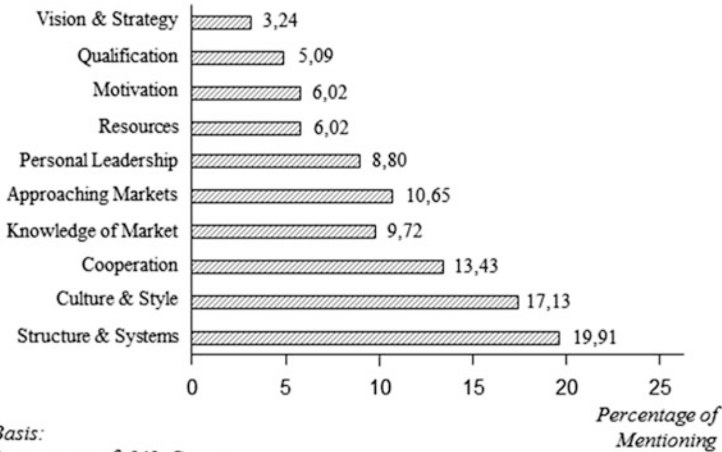


**Fig. 2.21** Perceived barriers to market orientation

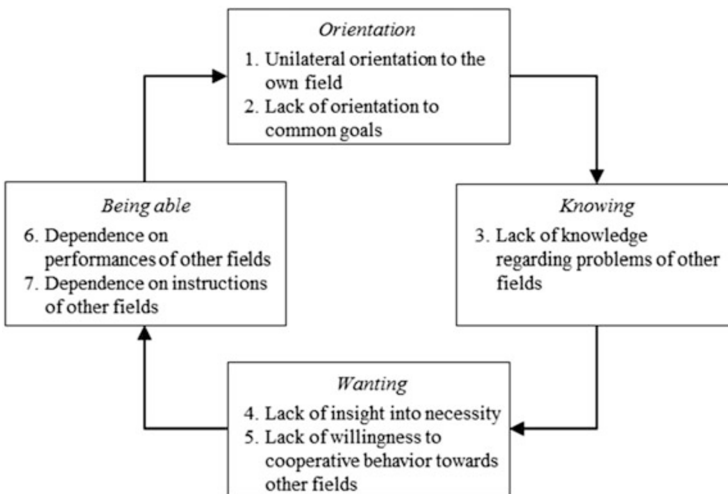


**Fig. 2.22** Impediments to interdepartmental collaboration (*Source*: Wunderer, 1997)

study of different companies and sectors of industry, a variety of barriers to increased market orientation were identified, as shown in Fig. 2.21 (Plinke, 1996).

Figure 2.22 summarizes some of the main reasons for resistance. In addition to "not-knowing," there are "not wanting to," "not being able to," and a general

absence of perspective. All four reasons constitute barriers to cross-functional collaboration.

*A lack of knowledge* can lead to resistance because market orientation is perceived as something foreign based on the firm's past history. Predispositions, myths, and misunderstandings, which we referred to in the first section, can play an important role in this as well.

*A lack of readiness and a lack of insight* into the need for market orientation can arise as a result of anticipated disadvantages. One of the benefits of functional specialization is that learning effects occur which simplify tasks from the viewpoint of the people responsible. These benefits arise from the repetition of identical tasks or functions. In contrast, market orientation focuses on the management of interfaces between functions. The consequences are new demands on the readiness and a capacity to collaborate across divisional boundaries. This can result in the loss of influence and status for some areas and the introduction of new technical requirements that generate uncertainty and rejection. The individual's expertise in their own field is brought into question by such changes and can lead to difficulties in understanding and to conflicts. Organized resistance is the readily identifiable expression of an attitude of refusal being held by those in the firm who anticipate disadvantages from the new orientation (Witte, 1973).

*A lack of ability* is another reason for resistance. This may occur when interdependent departments have not been appropriately coordinated or when skills and resources are inadequate.

We can distinguish three forms of interdependence in decision making (Frese & Hüsch, 1991):

- Interdependence due to intra-firm interrelationships in activities (e.g., production has authority over delivery times, which is also a means of competition for the Sales).
- Resource interdependence (e.g., several ranges of products jointly use sales facility)
- Market interdependence (e.g., several product-based sales divisions are targeting the same market segment and are partly in competition with each other).

Interpendence can lead to conflicts that become entrenched if they are structural in nature, with the result that divisional loyalties and focus predominate, at the expense of market and customer orientation.

The *absence of common goals* becomes a reason for resistance as when management only pays lip service to market orientation. This is the most important source of "organizational resistance." Management talks about customer orientation and market orientation but is not aware that the conduct of people in the firm is not changed as a result.

Management needs an understanding of the conditions and incentive systems affecting employees' behavior if they are to encourage employee's behavior to be market oriented. Otherwise, management may end up putting too much strain on the goodwill of their employees, which could lead to the entire concept being rejected.

One view is that market and customer orientation are mainly a question of employee attitudes. If they have the right attitude, their conduct towards the customer will improve as a result, so the argument goes (Kroeber-Riel & Weinberg, 2003). But such a view is naïve. Moreover, it results in management belaboring employees and managers with slogans that aim to get them to change their behavior and make the customer the center of their attention. Many channels of communication can be used to this end including formal mission statements, appeals, addresses to staff, and in-house magazines. Seminars on customer orientation are another popular method of trying to indoctrinate employees, so to speak. But these measures do not work, because they are based on a false logic. It is based on what may be called the "Preacher Approach" (Plinke, 1996). If the boss, the consultant, or the seminar leader is a good preacher, if they have charisma and convince people with sound arguments, the audience will believe them, follow them, and inwardly vow to improve. However, just as the congregation listens enthralled to the sermon, but afterwards goes on in the same old ways, so too will employees, once the sermon is over, continue to behave in the same manner as before. This is because the approach fails to recognize how the individual is embedded in an organizational context which shapes behavior. Appeals to market orientation, such as "the customer pays your wages after all!" are ineffectual because it does not correspond to the reality of the person addressed. As far as they are concerned, their wages depend on their boss, their partner in their contract of employment, and not on the customer.[3] The error lies in having a simplistic model of what drives employee behavior, i.e., the one depicted in Fig. 2.23.

*Slow learning* is as complex as organized resistance. Once it gets established, resistance cannot be broken down easily. Acceptance develops gradually. People in the organization will need time to reorient themselves and change their behavior. The underlying cognitive and emotional processes involved in forming a positive attitude towards a new situation can be an arduous and sometimes painful one.

People will learn the new message slowly even if they develop no resistance to the concept of market orientation. Learning, as the acquisition of new skills, is stressful and time consuming, especially when groups and teams of people in the firm all have to learn at the same time. The ability of individuals to adapt as well as their willingness to do so is also an important issue (Witte, 1973), especially when it requires having an insight into the complex interrelationships of the business process.

The third element in Kotler's Law is *fast forgetting*. If a firm has become market oriented after great effort, it needs to act so as to maintain its market orientation, or else people may tend to slip back into their old ways and lose sight of the customer.

[3] If, on the other hand, the contract of employment has been made in such a way that wages are dependent on sales, the employee might feel that he himself is dependent on the customer resource and will probably adjust his behavior to suit the customer.

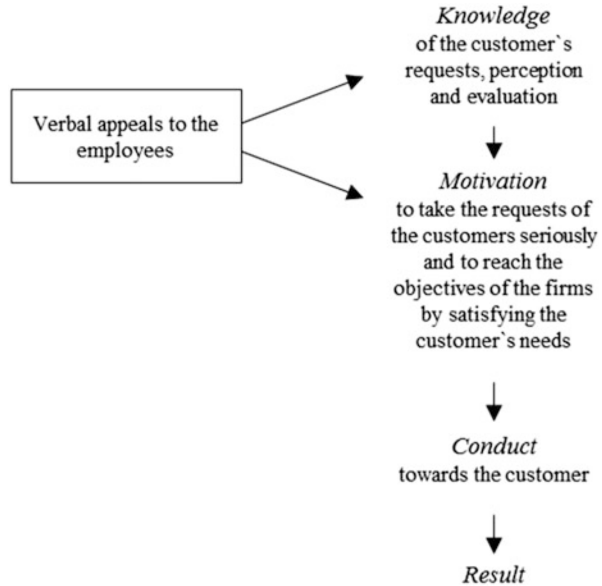


**Fig. 2.23** The preacher approach to market orientation—the wrong approach

#### 2.3.4.4 A Cause and Effect Chain of Market and Customer Orientation

How can the management of market and customer orientation be improved? Kotler's Law aptly describes the *motivational* and *cognitive* barriers to a change in behavior but does not deal fully with the limits of the Preacher Approach. For this we need to realize that we cannot understand an individual's behavior in isolation. Human behavior is embedded in the market and customer orientation *of the entire firm*. Figure 2.24 provides an overview of the factors involved and suggests an approach for the management of market orientation, moving from right to left across the figure, i.e., from effects to causes.

##### Results

Companies move into action when the current situation does not correspond to the desired situation. If the results of corporate activity are reasons for dissatisfaction and criticism, if profit, profitability, or sales leave something to be desired, and if an important order was not won, the call goes out only too quickly for the problem to be solved by "increased marketing effort." Immediate measures are decided on and consultants are appointed. The consequence is a call for "more customer orientation" and "more market orientation." What probably happens is that a form of behavior results resembling the aforementioned "Preacher Approach." A cause and effect relationship is assumed to exist between such conduct and its results which, as we have argued, are wrong.

##### Conduct

We must understand the behavior of the people involved in terms of the context in which they operate. This includes their motivation, knowledge of the market and

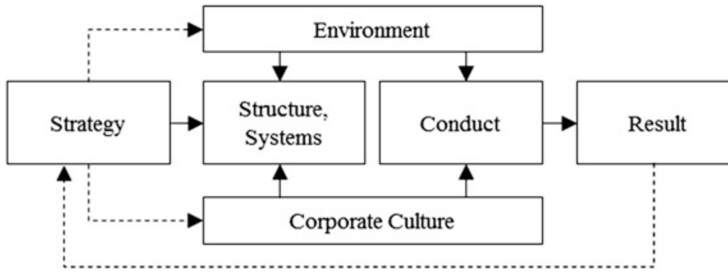


**Fig. 2.24** A cause and effect chain of market orientation

customers, their skills in dealing with the customer, and making a contribution to solving the customer's problem. Given their attitude to the customer, the individual experiences *intrapersonal* conflicts. The motivation to assist in solving the customer's problem competes with other motives, related and unrelated to the task at hand. What is required on the part of managers and employees is an ability to empathize with the customer—to be able to put themselves in the customer's shoes, to see things as the customer sees them (Trommsdorff, 1997), and to act positively in the customer's interests. *Webster* calls this *customer commitment* (Webster, 1988).

Important tools for guiding intrapersonal priorities in a market-oriented way are, in general terms, the tools of human resources management. The main options are training and incentives. However, they can only make a partial contribution as part of a more comprehensive management approach. The term "internal marketing" is used to refer to the process of trying to bring about the desired behavior. According to Grönroos (1981), the idea of an internal marketing function is to get motivated personnel with a great sense of customer orientation.

The behavior of the individual is related to the way in which the firm is managed. Managers, colleagues, and subordinates influence the performance of the individual. Another factor is how well people collaborate within the same division and across divisions.

Apart from inter- and intrapersonal factors affecting behavior, there are also structural influences. These we will consider next.

### Structure and Systems

The structure of an organization as well as its systems and procedures have a major effect on the way people behave. The formal structure of a firm includes the allocation of tasks among people and units, the delegation of responsibility and authority, reporting obligations, and status. A person's position in the structure creates *expectations of behavior*. This applies to both managers and employees. For this reason, structural design as a tool for managing market orientation is of special importance. This applies not only to formal structures but also to informal structures in the organization.

Organization's systems play a role in coordination, in the provision of information, and in providing incentives for behavior. Systems do not create expectations of behavior, but they do affect behavior. This includes the design of incentive systems, the performance characteristics of the information and communication system, and the way in which management's control systems are designed.

#### Strategy, Culture, and Environment

The appropriate design of an organization's structures and systems derives from the strategy of the firm. The strategy establishes the objectives which are to be achieved in the competitive environment; the structures and systems are the means by which the objectives are to be realized.

The firm's business environment and its corporate culture also impact on the design of structures and systems, as well as on the way managers and employees behave. The business environment, especially the strength of competition, has a strong influence on the nature and degree of market-oriented behavior. The corporate culture refers to the values and models of behavior which characterize a firm and is the outcome of its history. A corporate culture develops over a long period of time and cannot be changed in the short term.

From the foregoing, we can identify a chain of cause and effect relations: strategy determines the decisions about structure and systems; structure and systems create the framework and the incentives for market-oriented behavior (or not), with the additional influence of the business environment and corporate culture that has developed over time. If all is designed and implemented as planned, market-oriented behavior hopefully results. If the results are not satisfactory we return to the beginning—the *feedback arrow* points directly at strategy: if the results are not satisfactory, the cause should be sought first in the strategy and not in behavior. Sweep the stairs from the top downwards!

### 2.3.5 Market-Oriented Management as an Integrative Process

Industrial marketing management, as we have argued, is aimed at establishing lasting customer satisfaction. We have depicted customer satisfaction and market and customer orientation as the cornerstones of the marketing concept. Marketing management matches the customer's process and the supplier's process. It is the driving force in the firm which brings the interests of the customer and firm together.

We have broken down this marketing management process into: (a) a closed-loop control system directed outside the firm that is concerned with the customer's process and (b) an in-house closed-loop control system which covers the intra-firm processes and their direction. Success in industrial marketing management depends crucially on the in-house and external closed-loop control systems being combined into a coherent overall management concept that ensures market orientation and customer orientation.

**Fig. 2.25** In-house process and customer's process

The in-house process and the customer's process are directly interrelated. The supplier's in-house process is the means by which value is created. It consists of all its activities in research, development, procurement, production, logistics, sales, etc. The customer also creates value by means of their activities in research, development, procurement, production, logistics, sales, etc. The part of the customer's process that is of primary interest to the supplier concerns the procedures for procurement, implementation, utilization, and disposal. The supplier has an effect on the customer's processes and conversely, the customer has an effect on the supplier's process, as shown in Fig. 2.25.

The in-house and the customer's process are linked together in a specific way: the in-house processes serve as input for the customer's processes. In other words, each individual service provided by the supplier is connected with the customer's services in a specific way. This is illustrated by Fig. 2.26.

The in-house process and the customer's process have to be coordinated. Figure 2.27 illustrates the interplay of the two control processes. The external controller directs the external control system, and the in-house controller directs the in-house control system. This reveals the Achilles' heel of marketing management: if the external and the in-house controller are not well coordinated, it means that the controller guiding the external control loop is not operating in a way that is compatible with the in-house process. This is another example of an *interface* problem, which can be the cause of delays, misunderstandings, divergent objectives, etc. In a market environment in which speed, flexibility, innovation, quality, customer orientation, and customer responsiveness are regarded as the prerequisites for survival, an interface problem of this sort can become a hazard.

This interface problem can be eliminated by replacing the two controllers by a single one. The relationships between the in-house and external control loops are illustrated by an appropriate link between two controllers, which merge into a higher-level controller. This step fulfills the principle of *integrated marketing*: instead of two heads, there is one that bears the integrated responsibility—for a knowledge and interpretation of the customer's requirements and for meeting these requirements through the functional divisions of the supplier firm. This overall responsibility is by its nature *entrepreneurial*: the person or persons responsible cannot hold anyone else in the firm responsible for an undesirable outcome on account of their overall strategic direction and coordination of the control processes.

The overall controlling entity has two faces, or *a Head of Janus*: one face turned towards the customer's process and competition, the other towards the in-house process. But there is *only one brain* guiding both processes. We will call this integrated approach *market-oriented management,* i.e., when responsibility for

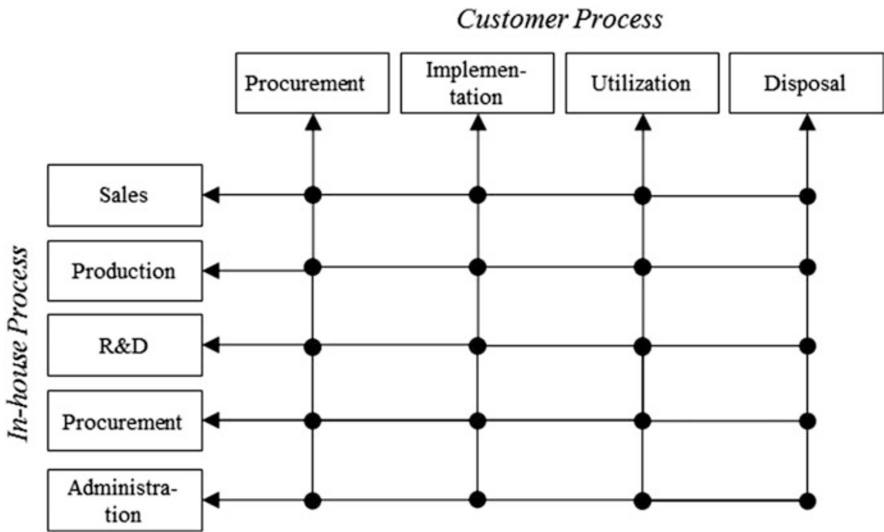


**Fig. 2.26** The link between the in-house and the external process

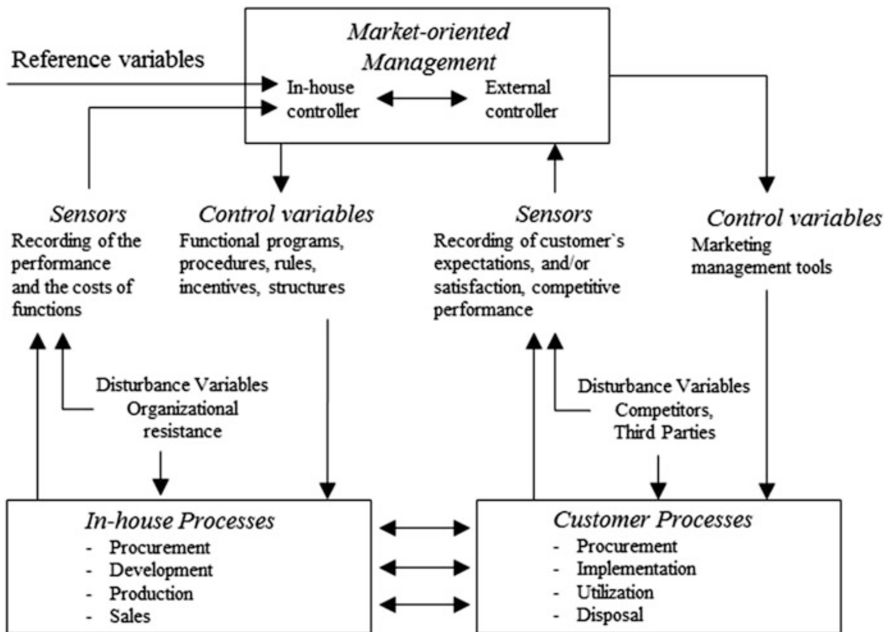


**Fig. 2.27** The Janus-faced nature of market-oriented management

the market and for the firm is in one pair of hands. We find approaches of this sort in:

- Profit Center concepts for product groups and/or markets,
- Key Account Management concepts with a responsibility for profit in business relationships with important customers, or in
- The management of important orders and major projects.

The important thing for the implementation of market-oriented management is an entrepreneurial way of looking at things: the fact that a *single* responsibility exists for the entire process. The closer this responsibility is to the customer process, the more effectively is market-oriented management able to exercise its power. However, market-oriented management does not exist if responsibility for the market is decoupled from other company responsibilities.

### 2.3.6 Arenas of Industrial Marketing Management

If all customers were to be rated as *equal* from the firm's viewpoint in terms of their contribution and the degree of competitiveness involved, market orientation would be the same for all customers. But customers are not usually of equal value to a firm, and the degree of market orientation towards them will vary accordingly. A firm designs its *marketing programs* to serve customers depending on their importance in terms of such things as revenue, life-time value, information, reputation, and referrals, and in regard to the costs of serving them and the potential for replacing them. These programs are designed according to the type of transactions involved, which may be characterized in terms of two dimensions: the supplier's market focus and the customer's purchasing pattern (cf. Table 2.3):

First, consider the supplier's market focus. Let us imagine a zoom lens with an extremely narrow angle in order to achieve the maximum telescopic effect. In that case the focus of market orientation is on a single customer. The opposite is the case of an extremely wide angle, when all the customers in a market are in the viewfinder. What does this mean? If all customers are within the viewfinder, the same marketing program is developed for all customers. There is only one marketing mix. This is efficient but not necessarily effective, because customers are heterogeneous—to a greater or lesser extent. If a customer is the only one in the viewfinder, then a special marketing mix is designed for them, tailored as far as possible to the individual wishes and expectations of the customer. This is probably very effective but not necessarily efficient. In general, we may say that the *focus of a firm's market coverage* is concerned with the degree of standardization or customization of the tools of market management. The greater the importance and the less readily replaceable the customer is, the more readily will the firm—subject to the costs of customization—pursue its focus on the individual customer.

Second, consider the *dominant purchasing pattern*. At one extreme is the restriction of market orientation to *one* transaction, without taking into

**Table 2.3** Transaction types and types of marketing

| | | Focus of the supplier's market coverage | |
|---|---|---|---|
| | | Individual customer | Segments or total market |
| Dominant pattern of purchasing | One-off purchasing decision | Project marketing | Transaction marketing |
| | Repeat purchase | Key account marketing | Relationship marketing |

consideration any associated effects. The other extreme is planning for a long-term business relationship in which market orientation relates less to the individual transaction than to a repeated exchange of values between the firm and its customer over time. The distinction is between a one-off purchase and repeat purchase and the corresponding adaptation of marketing tools.

Usually the situation is somewhere in between the two extremes described. But the two extremes can be used to indicate the different types of marketing programs firms may engage in.

Associated with each type of transaction is a *competitive arena*. What are the threats faced by the supplier? What opportunities does it see, and what objectives does it want to achieve in relation to competition? The answers differ by transaction type. It makes a difference whether the desired outcome is, for example, to secure an order in a one-off market transaction or the aim is to maximize market share in the overall market with a high degree of customer loyalty. The competitive arena is defined in terms of the supplier's perception of the competitive situation and the firm's competitive objectives, which in turn is the basis for formulating an appropriate program of action.

On the basis of the foregoing we can distinguish four types of marketing programs:

1. *Transaction Marketing*: developed for single transactions with a number of customers. Example: A carrier whose customers purchase strictly according to the criteria of price and delivery time and constantly change supplier.
2. *Relationship Marketing*: developed for repeat purchasing from a number of customers. Example: The spare parts business of a machine manufacturer.
3. *Key Account Marketing*: developed for individual customers with the emphasis on developing a long-term business relationship. Example: Subcontracting business to an OEM manufacturer.
4. *Project Marketing*: developed for individual customers with the main emphasis on meeting a particular instance of demand. Example: tendering for a greenfield factory development.

We will illustrate the different types of competitive arenas in terms of the following case study.

**Case Study: André Latour Père et Fils 1771**

"Something incredible has happened!" Mr. *Savigny* looked pale and worn out from lack of sleep. He looked penetratingly from one to the other of his two colleagues sitting in front of his desk. Mr. *Mons*, Sales Director of the firm of *USINES BEAUMONT*, and Mr. *Bertrand*, Technical Director of the firm, suspected that something bad was coming. "I have just learned that the order from *LATOUR* has been lost. That is the most incredible thing ever to have happened to me in my career as Managing Director of *USINES BEAUMONT*." Then he exploded with the words: "*MMM* has got the order. Those people who have never to this day proved that they know anything about modern engineering, who have not long been in the market, yes, those very people have snatched a dead-cert order away from us, a leading engineering supplier. 15 million *Francs* is a lot of money, gentlemen, but what is even worse—I don't have the slightest idea how this could happen!"

Director *Bertrand*, who was just as astonished as his colleague *Mons*, was the first to find his tongue. "Yes," he said with embarrassment, "it really is too bad that we did not get this order. I gave it my closest personal attention. I did everything possible to capture the order."

"I want to know what happened." Mr. *Savigny* had still not calmed down. "We have supplied seven machines to *LATOUR* so far. I have been friends with the Managing Director of *ANDRE LATOUR* for years. Mr. *Vallois* is a fellow Board member of the Golf Club, he sits alongside me on the Advisory Committee of the *CAISSE NATIONALE*, the bank both our companies use—and then he does this to me! It is just not right. He just telephoned me to say he was sorry, but his Technical Director *Lapierre* together with his people was so resolved, he could not do anything about it."

"You can't even get in contact with *LATOUR* anymore. I tried to reach Mr. *Lapierre* yesterday and also last week, but he was not available to speak to me," said Mr. *Bertrand*. "I did everything I could," said Mr. *Savigny*, "I myself spoke to Mr. *Poulet*, the Commercial Director, the day before yesterday, but he only told me that it was not his responsibility. I nevertheless pointed out to him that in a business such as this it is not only the engineering which is decisive, but that the background situation must be taken into consideration as well. And I contacted Mr. *Vallois* several times about the new order, as I was just able to rescue the order for the last machine by my personal intervention with Mr. *Vallois*. What more could I have done? Do I always have to iron out the mistakes my team makes?"

Mr. *Mons* joined in: "It is, of course, a painful situation for us. We urgently needed the turnover from this order in this market segment for the coming business year so that our market share does not worsen. But it is after all in the nature of our business that one does not obtain an order for every quotation issued. We also had bad luck. We must recover the situation with the next

(continued)

> orders we secure to maintain our market position. We must redouble our efforts." "No, my dear Mr. *Mons*," interrupted Mr. *Savigny*, "we cannot accept this serious case so lightly. I want to be clear about such a terrible event, in all its aspects. I expect you, Mr. *Mons*, to let me have a detailed report the day after tomorrow about everything that took place in connection with acquiring this order. Now please excuse me."

One can read this report from quite different viewpoints with regard to the marketing problems it illustrates. Although we can find no information about the product, that is not important. The crucial question is where does Mr. *Savigny*, the Managing Director, see the challenge from competition. This can be considered in several ways.

1. Is Mr. *Savigny* so worked up because a fat order has been lost? Is he furious with his dozy team who did not notice that a competitor was appearing over the horizon and snatching away their order? If so, then the competitive problem is one of improving order acquisition and we are dealing with a case of m*arketing for an individual project*.
2. Is Mr. *Savigny* so worked up because a long-standing business relationship with the key customer LATOUR threatens to disintegrate? Over the years, seven machines have been supplied to LATOUR after all, and there are close personal relationships between the two bosses. Thus, it is not just one order which has been lost; the loss of the entire future business with this important customer is possible. If this is the case, then the competitive problem is one of repairing and defending the business relationship. The intervention of the competitor into the business relationship is a "slip-up" that must be overcome in order to secure future business. In that event, we are dealing with a case of *Marketing in a business relationship* (*Key Account Marketing*).
3. Is Mr. *Savigny* so worked up because his position in the market is at risk? Is there a threat of loss of image, followed by a loss of market share? If that is so, then the damage must be limited. It will be necessary to establish whether the competitor has a chance of getting a serious foothold in the market segment in question because it is in a position to give the customer in this market new customer advantages. The competitive problem here is to develop ways of defending the firm's position as a market leader in this segment. Here we are dealing with *Marketing positioning with respect to the market as a whole*. As repeat purchasing dominates in machine manufacture of this type, it is a case of *Relationship Marketing* focusing on the overall market.
4. Is Mr. *Savigny* so worked up because he senses a technological challenge? Has a competitor arrived who is putting the entire business onto a new technological level? Is the very existence of the firm threatened on account of an unnoticed technological change in an important area of business? If that were the case, then a fundamental reconsideration of the firm's situation is required to establish

whether the boundaries and the rules of the game are changing in this sector of industry. In that event, we are dealing with a case which goes beyond marketing in the strict sense. It is a problem involving the reformulation of the firm's overall strategy.

5. Is Mr. *Savigny* so worked up because the problem involves many different levels of operation? Is the whole way his firm approaches the market correct? If that is so, then we are dealing with a problem of reviewing and reformulating the competitive strategy including an *integrated marketing strategy*.

In sum, we can say that market orientation differs according to the type of competitive arena in which the competition is defined. We have defined four basic types of competitive arenas that shade into one another, but which enable us to identify typical situations shaping market orientation. These four basic types enable us to classify different types of the marketing planning processes.

### 2.3.7 Conclusion

We can now summarize what we mean by marketing as a management task. In line with the analysis of the market process, we can state that marketing management comprises all the planning, coordinating, and monitoring processes intended to ensure that the firm's objectives, in the relevant competitive arena, are achieved. As the competitive situation can threaten the existence of the supplier, marketing is, ultimately, a strategy for survival.

We have seen that the precondition for survival in a competitive market is to attain positions in which the supplier possesses a sustainable competitive advantage. The firm secures such a position through cost, time, and benefit advantages. The mission for market-oriented management in this context is unambiguous. The strategic decision determines the competitive position sought. The marketing management concept concerns occupying and holding this position, i.e., it must establish the external control loop and then integrate the in-house and external control loops in such a way that the desired position is attained and maintained. It therefore becomes clear that market-oriented management has a direct connection to the strategic decision, but that it itself adopts a midway position between the strategic and the operational level and between the focus of the business and the functional focus.

## Exercises

1. Can we apply marketing management concepts to other types of human interaction than market exchanges? For example, do they apply in the case of religion, family relations, or politics? Are there any problems with such an application of marketing tools in these areas?

2. How do we determine the relevant markets for a firm? What is the difference between a market and a sector of industry?
3. What are the problems associated with a product-based definition of the relevant markets?
4. Characterize the stages of development of market orientation.
5. What are the characteristic features of a customer-oriented firm?
6. Why can customers be described as a "vital resource" of a firm?
7. Explain the distinction between the terms "market orientation" and "customer orientation."
8. Outline the different forms of market orientation.
9. Describe the phases of the marketing process.
10. Describe the closed-loop control system of marketing management.
11. Describe the dual closed-loop control system of market-oriented management.

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