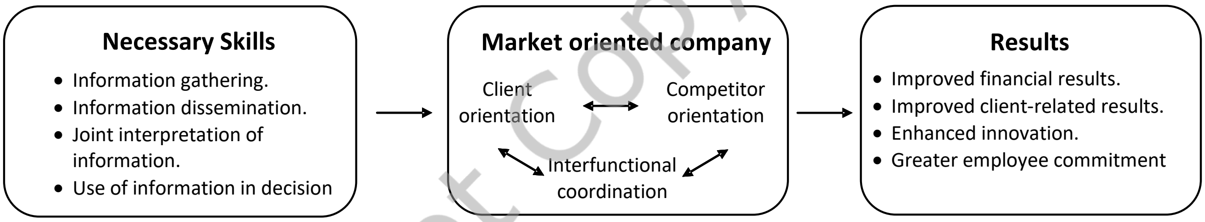
MN-371-E
November 2009

Market Orientation

Carlos García Pont
Paulo Rocha e Oliveira

The purpose of this technical note is to define the concept of market orientation, demonstrate the advantages and characteristics of a market-oriented company and propose some ideas to help companies develop their market orientation. Table 1 outlines the main topics discussed in this technical note.

Table 1



Market orientation is one of the central concepts in marketing literature. It provides organizations with a competitive edge to foster an understanding of market demands and the ability to respond effectively, increasing the sensitivity of the entire organization to changes in the environment. As part of the organizational culture, it permeates each and every company task. Each and every one of the roles and each and every one of the company's activities can be carried out in an environment of accountability to external demands or outside this environment. This applies to both longer-term tasks, development and product design, and more immediate tasks, such as how to prioritize the calls to be made to customers.

The following is a well-known quote from Peter Drucker: "There is only one valid definition of a business purpose: to create a customer ... it's the customer who determines what a business is ... it is why there are only two basic functions in business, marketing and innovation."

This technical note was prepared by Professors Carlos García Pont and Paulo Rocha e Oliveira. November 2009.

Last edited: 28/9/21

These two functions are, by definition, the delivery and creation of customer satisfaction. If these are the only relevant functions within a company, the others will be designed to serve them, and the better they understand these needs, the better they will be. The market orientation of activities such as logistics, manufacturing and management is what allows marketing and innovation to achieve the creation and satisfaction of customers.

Market Orientation and Results

Although the concept of market orientation has been around for over 50 years, it became operational with the work of Narva and Slater (1990) and Kholi and Jaworski (1990), who proposed specific methodologies on how to measure the market orientation of a particular company. Since then, studies have been carried out to identify what the consequences of market orientation on business results are. The number of studies is very large and here we are only attempting to summarize the main conclusions they lead us to.

a) Organizations with high levels of orientation towards the market have better results. Results have been measured in various surveys using profit, return on investment, market share, sales growth and customer retention. It is true that in less developed economies or those more geared toward the creation of an industrial network (e.g., China, Malaysia), the relationship between market orientation and profitability is not as strong.

b) Organizations with greater market orientation tend to have better results with their customers. Their customers tend to receive higher quality and show higher levels of satisfaction and loyalty.

c) Organizations with a high degree of market orientation are more innovative in two ways. First, they deliver more innovations to market. Learning from current and future needs of customers leads to a better understanding of the products that can be developed. Moreover, these organizations also tend to surprise the market with more products to fill gaps that have not been occupied by any company. Furthermore, the innovations made by companies with high levels of market orientation are more successful.

d) Market orientation has implications for the people working in these organizations. Studies show that people's commitment to the organization is greater, they develop higher levels of job satisfaction while showing less conflict and higher levels of teamwork.

Cultivating Market Orientation

The development of market orientation is based on two different perspectives: the first is a behavior-based perspective of organizations, and the second derives from a cultural standpoint. The behavior-based perspective focuses on the activities of the organization that are related to the generation and dissemination of market intelligence. The cultural perspective is focused on the set of beliefs, values and norms that put customers at the center of the organization. The notion of customers includes distribution channels and intermediaries and the end user of the product or service being delivered.

For an organization to attain sustained above-average results, it must create added value for its customers, be they distributors, intermediaries or end customers. When all the customers perceive that the value delivered by the organization exceeds the cost of owning the product or service, the customer purchases the product. But it doesn't end here, given that our offer is compared with that of substitute products and the customer will not acquire our product or services if we do not provide a differential value, i.e., if we do not offer more than our actual or potential competitors.

The desire to deliver superior value to our customers leads the organization to create and maintain a culture that facilitates this, which must then be transformed into specific actions. That is why market orientation is fixed in organizational behaviors that transcend common business activities, because they permeate all activities of the organization. A market-oriented organization is continually examining alternative sources of value creation for current and future customers, and decides how to transform that value creation into financial profit.

That is why market orientation is put into action through three behaviors: customer orientation, competitor orientation and interfunctional coordination. This is all taking into account an orientation to building such capacities in the long term and aiming at long-term profitability.

Customer orientation is aimed at understanding the sources of value creation for the various types of customers that the company has. Consider that the same product can create value in many different ways for different customer segments. Dinner at a restaurant can be aspirational for a market segment, i.e., it is a venue for celebrations they can rarely afford to go to, and at the same time can be a place for daily eating for customers with a high level of income.

In another situation, market orientation implies knowledge of the various client activities and the contribution of each to their profit and loss account. This understanding is key to helping our customers improve "their" profit and loss account which continues to be the best way to show them that we create value for them.

Value is created for industrial customers in two ways: either by reducing customer costs or by improving the customer's income. That is why it is important not only to understand the structure of costs and benefits of our customers. But to help them increase their income we must also understand their customers' cost and income structure. A market-oriented organization must understand not only the profit and loss account of its customer, but the profit and loss account of the whole chain in which its customer plays a role.

Competitor orientation involves knowing and understanding their situation, both short and long term. In the short term, knowledge of the strengths and weaknesses of competitors allows us to understand their reactions; in the long term, understanding their strategy allows us to position ourselves strategically in the sector and find unexplored areas where there is as yet no competition, or to prepare ourselves to compete by creating capabilities that allow us to be better than others with similar strategies. In asking how many people do the same as us or are ranked with similar value propositions, what matters is not the number of companies with which we compete, but the distance we are from them.

A third component is *interfunctional coordination.* The concept of market orientation encompasses the entire organization. A given marketing department is not market-oriented by virtue of studying the IRI and Nielsen reports and having a huge research budget. The concept of market orientation is organizational and therefore mechanisms should be put in place so that the various activities of the organization grasp customer needs and join in the desire to meet them with a commitment to long-term profitability.

It is not enough that the company's sales force reports daily on who the competition is out there and how they have hurt us or we have hurt them in this operation. All this information should be integrated into the daily work of the organization. Interfunctional coordination does not refer