Market-Driven Organizations

Bill Barrett
http://www.prodmarketing.com

1   Introduction

In recent years, market-driven organizations have begun to emerge as the new industry giants. The new market-driven companies, such as Cisco Systems and Home Depot, are consistently delighting their customers with new products and services, and reaping great rewards in the process, while companies such as IBM have struggled. The market-driven formula for success in today's marketplace is to produce the right product at the right price at the right time. The right product is the one that solves the customer's problem and delivers the highest value. The right price is what the customer is willing to pay. The right time is when the customer needs the product. Customer needs are continuously changing. Therefore, an organization must know how customers' wants, needs, and values evolve over time to be successful. To gain the intimate knowledge of the customer, an organization must become focused on the markets and customers it serves and put the customer first in every aspect of the organization. Cisco and Home Depot have enjoyed dramatic success by creating market-driven organizations, while the internal focus of IBM have created rough times for the industrial giant.

2   Defining the Market-Driven Organization

2.1   Customer and Market Focus

Customer and market focus is a philosophy of putting the needs of the customer first in every aspect of an organization. Narver and Slater (1990) defined market orientation as "a business culture committed to the continuous creation of superior value for the customers." Jaworski and Kohli (1996) defined market orientation as "the organization wide generation of market intelligence pertaining to current and future customer needs, dissemination of the intelligence across departments, and organization-wide responsiveness to it." Tadepalli and Avila (1999) similarly define market orientation as "the organization wide generation, dissemination, and responsiveness to market intelligence."

Webster (1994) also emphasizes the importance of putting the customer first in his view of market-driven management. Webster also supports Drucker's views that value is defined by the market, and profit is the reward for a satisfied customer. Therefore, to deliver the highest value and consistently produce a satisfied customer, an organization must always put the customer first in every aspect of the organization, including goals, strategy, culture, and structure. Webster's market-driven management also suggests that putting the customer first serves all stakeholders by creating a satisfied customer. This

perspective challenges the classical belief that compromises must be made in satisfying stakeholders, since multiple stakeholders have multiple goals that often conflict with one another.

2.2 Capabilities for a Market-Driven Organization

Craven and Shipp (1991) identifies market awareness, organizational flexibility, strategic vision, and external relationships as important capabilities for the market-driven organization. Market awareness allows an organization to know its customers, competitors, and markets. As customer needs change, organizational flexibility enables quick reaction. Strategic vision encompasses organizational planning to provide consistent superior value to the customer. External relationships help create synergy and align stakeholders toward a common goal. A company must develop these capabilities to become a successful market-driven organization.

2.3 Market-Driven Definition

From the different views on market orientation, Uncles (2000) defines market orientation to be a set of organizational characteristics:

- Market-driven organizations have a thorough understanding of customers and potential customers, including their changing needs and wants.

- A key activity for a market-driven organization is information gathering. Market-driven organizations continuously gather data in all environmental sectors – competitive, cultural, political, economic, technological, human resources, physical resources, and consumer.

- The market-driven concept is a managerial concept. Close attention must be given to business processes and activities. Emphasis must be placed on an organizations ability to respond to environmental changes.

- The market-driven concept is a cross-functional concept, and affects organizational decision-making, organizational learning, and a review of internal competences. All aspects of the organization must be aware of and consider environmental changes.

- Market orientation's impact on business performance emphasizes measurement issues. Organizations should appraise current process and activities against current business performance. Continuous process improvement is mandatory for a market-driven organization.

3 Creating the Market-Driven Organization

Market-driven organizations put the customer first throughout the organization – the goals and objectives, the strategy, the culture, and the structure. Putting the customer first begins with the objectives, goals, and mission of the organization. The strategy defines on how these goals are going to be achieved. The culture of the organization must support the values and behaviors to "live" the strategy. The structure must also be designed to support the strategy and goals, and to reward the proper behavior of putting the customer first. The entire organization, its goals, strategy, culture, and structure must work together to provide maximum value to the customer.

3.1 Goals and Objectives

Hodge, et al (1996), define organizational goals are the statements that establish the desired future state of an organization. By putting the customer first in an

organization's mission and goals, market-driven organizations make providing value to the customer a top priority. This commitment to the customer is evident in Cisco System's mission statement:

> Mission: Shape the future of the Internet by creating unprecedented value for our customers, employees, investors, and ecosystem partners.

Cisco's market focus begins with its emphasis on delivering "unprecedented value" to its customers, as well as other stakeholders, including employees, investors, and environmental partners. Cisco's mission statement is consistent with market-driven perspective of serving the objectives of all the stakeholders.

Home Depot has also placed delivering customer value high atop the list of objectives. In its 1999 annual report, Home Depot outlines three goals:

1. To continue a pattern of strong and consistent sales and earnings growth.

2. To increase our ability to be a total solutions provider to do-it-yourself and professional home improvement customers.

3. To lead the marketplace to a better world.

As shown by the goals of Cisco and Home Depot, the objectives of serving customers as well as other stakeholders are indicative of a market-driven organization.

3.2 Strategy

3.2.1 Definition of Strategy

Strategy is a plan to accomplish an organization's goals and objectives that defines how a company is going to compete in the market it serves. As part of this plan, organizations must consider various dimensions as part of the strategy and select a strategic discipline. Market-driven organizations also develop product strategies to deliver whole product solutions to customers and use strategic relationships to build synergy, create whole-product solutions, and gain support of stakeholders.

3.2.2 Dimensions of Strategy

Aaker (1998) extends this definition to include the following dimensions that are part of an organization's strategy:

1. The market in which an organization competes, including the markets served, product offerings, and competitors.

2. The level of investment and the growth strategy.

3. Functional area strategy that may include product line, pricing, positioning, distribution, manufacturing, information technology, segmentation, or global strategies.

4. The core competencies that provide the sustainable competitive advantage.

5. The allocation of resources across business units.

6. The development of synergistic elements across business units, such that the whole is greater than the sum of the parts.

3.2.3 Strategic Disciplines

Treacy and Wiersema (1995) suggest different "disciplines" to developing a strategy based on three different forms of customer value – operational excellence, product leadership, and customer intimacy, which are analogous to Porter's strategies of cost leadership, differentiation, and focus. The premise is that an organization selects a strategy based on optimizing on one of the three value disciplines.

3.2.4 Whole-Product Strategy

The market-driven concept requires the satisfying the customer's ever changing needs be placed first in every aspect of the organization, including the strategy. Moore (1995 and 1999) suggests a whole-product strategy for delivering value to the customer as a product progresses through its life cycle. A "whole product" is the minimum set of products and services required to meet the needs of the target customer. As the product or technology progresses through its life cycle, a different strategic discipline or combination of disciplines should be applied – operational efficiency, product leadership, or customer intimacy. Moore's product strategy is consistent with the market-driven concept of focusing on the customer and keeping pace with a continuously changing external environment. In general, a market-driven organization places the customer at the center of the strategy and develops the elements of the strategy based on one of the strategic disciplines – operational excellence, product differentiation, or customer intimacy.

3.2.5 Relationship Strategies

The market-driven concept suggests that putting the customer first in all aspects of an organization results in satisfying all stakeholders, which challenges the belief that multiple stakeholders often have conflicting goals. Market-driven organizations use relationship strategies to form partnerships and alliances with stakeholders to create synergy and minimize or eliminate conflicting goals. For example, Cisco Systems has formed "strategic alliances" with suppliers and customers to "deliver a customer-centric, total solutions approach to solving problems, exploiting business opportunity, and creating sustainable competitive advantage for our customers." Cisco and its partners recognized that their products and services, combined with those of suppliers and customers, created a total solution that was more valuable than the sum of the individual pieces. By placing the customer first, all the partners are working together toward a common goal. For strategic partnerships to be successful, organizations must select partnerships that create synergy among the partners.

3.3 Culture

Market-driven organizations manage corporate culture to include the values necessary to successfully implement market orientation – putting the customer first. These values cause the organizational members to behave in a manner that is consistent with market orientation. Wiersema (1996) emphasizes the importance of culture when he wrote, "… I've found that the culture of a customer-intimate company – with its distinctive behaviors, beliefs, and mind-sets – is the single most important underpinning of successfully adopting the customer-intimate discipline." The "heart" of Webster's (1994) marketing concept is creating a company culture to always put the customer first. Etheredge (2000) provides dimensions for a customer-driven culture:

- An obsession with the customer, starting with the CEO and extending to every employee.

- Creatively research and highlight customer needs and expectations.

- Ensure organizational members have a channel to make suggestions.

- Make heroes out of employees who deliver great customer service.

- Attract and retain the best employees to get the right customer experience.

- Find innovative ways to improve skills and increase confidence throughout the organization.

3.4 Structure

3.4.1 Organization Structure Overview

According to Etheredge (2000), there is "no silver-bullet organizational structure" for an organization that is customer focused. The key point Etheredge makes is to create an organization that best serve customer needs. Etheredge provided examples of customer segment-based, process-based, industry-based, product/service-based, and geography-based structures. Despite which structure is used, there are common characteristics that exist in market-driven organizations, including environmental spanners, organic structures, teamwork environments, and strategic partnerships.

3.4.2 Environmental Spanners

Cravens and Shipp (1991) recognize market-driven organizations need to scan the environment, establish adaptive and flexible organizations, and encourage strategic partnerships with stakeholders. Market-driven organizations employ boundary spanners that collect information from the environment and share the information with the rest of the organization. Marketing and sales are most often tasked with spanning activities.

3.4.3 Organic Structures

The traditional hierarchy is being replaced by organic structures, characterized by flatter forms and greater span of control. Cravens and Shipp (1991) suggest that information technology improves the speed and efficiency of information transfer and eliminates the need for multilayered organizations, which opposes Weber's view that impersonal nature of technology leads to the formation of bureaucracies. Furthermore, the increased traffic of information produced by technology could suggest a deeper hierarchy to filter out and delegate the processing of information. Information technology's tendency toward information overload would be expected to increase organizational complexity. Therefore, the use of information technology does not necessarily lead to a flatter organic structure. The need to respond to environmental changes quickly has lead to a greater span of control and, thus has led to organic structures. Greater span of control results in less information flowing up and down an organizational hierarchy, thus, eliminating the need for a complex structure. Information technology's role is to make information more accessible. Additionally, boundary spanners must filter out irrelevant and inaccurate information to prevent information overload.

3.4.4 Teamwork

Market-driven organizations, as organic structures, use cross-functional teams to focus on delivering value to the customer. Teams are often dynamic and formed to solve a specific problem. Once the problems are solved, the team is disbanded. Other teams may be more permanent to perform ongoing functions. For example, a strategic planning team must meet periodically to continue to review organizational strategies and make revisions in response to environmental changes, while process improvement teams are formed to address a specific problem and then dissolved.

3.4.5 Strategic Partnerships

Strategic partnerships, as part of a relationship strategy, are formed between stakeholders and the organization. Strategic partnerships often span the organizational boundaries to form alliances with suppliers

and customers. Strategic partnerships are often formed to create synergy between two organizations with a common customer, provide whole product solutions to market segments in which either organization could not compete alone, to gain access to a proprietary technology, or to gain access to new distribution channels. The key to a successful partnership is creating common goals and a shared vision for the partnership.

4　Industrial Successes and Struggles

Creating a market-driven organization prepares a company to adapt to changing environmental conditions. Organizations that learn to adapt quickly have achieved enormous success. Andersen Consulting released the results of a study on March 21, 2000 that examined the effect of customer relationship management on an organization. The study found that a typical $1 billion-a-year high-tech company could gain up to $130 million in profits by effectively managing customer relationships. Home Depot and Cisco Systems represent two examples of company's successfully creating market-driven organizations.

4.1　Home Depot Rises to the Top

Home Depot has set objectives and formulated a strategy to provide superior customer value through unprecedented customer service. Arthur Blank, Home Depot's CEO and cofounder, has instilled the concept of putting the customer first. In an interview with Forbes Magazine, Blank says, "We are in the relationship business, not the transaction business. People can buy this merchandise from somewhere else. The challenge is always remembering to walk in the customer's footsteps, not our own."

Customers are responsible for suggesting 70% of Home Depot's 50,000 products. 50,000 customers also attended Home Depot University, a four-week education program for do-it-yourself customers. Home Depot continuously "tweaks" and updates stores to continuously deliver value to customers.

Home Depot has also formed alliances with suppliers to provide brand-name merchandise not available anywhere else. Home Depot exclusively sells Scotts brand lawn mowers that are actually made by John Deere.

In 1999, Home Depot had $34.8 billion in sales and $2.3 billion in net earnings, up 27% and 44%, respectively. Home Depot has consistently produced year-on-year growth as well as increasing the dollar volume per store, average sale per transaction, and average sale per square foot.

4.2　Cisco Systems: World Leader in Internet Networking

In 1984, Cisco Systems was a small start-up with less than 20 employees. By the end of 2000, Cisco employed over 34,000 people and had sales in excess of $18.9 billion. Today, virtually all Internet traffic travels over switchers and routers developed by Cisco Systems.

Cisco's customer focus shows in everything they do. In an April 2000 interview, Ram S. ChandraSekaran, senior manager of Internet Strategies at Cisco's Internet Business Solutions Group, told *Electronic Buyers' News*, "We started with the customer. We looked at the ability to manage that relationship and not at how many boxes we needed to sell to meet the quarterly numbers. …Every project within Cisco is around the question, 'How will it increase customer satisfaction?'"

4.3　IBM Struggles, But There's Hope

Thomas J. Watson, Jr. followed in his father's footsteps by taking over the medium-sized IBM in 1956 and built it into a giant in the computer industry. By the

1990s IBM had over 350,000 employees and over $67 billion in annual revenues. Then on January 19, 1993, IBM reported a record loss for the fourth quarter of 1992 in excess of $5 billion. IBM set a record for the largest annual loss in an American corporation in 1992 with a loss of $4.97 billion. IBM had grown into a large, internally focused bureaucracy.

IBM failed to recognize environmental changes and customer preferences for smaller desktop computers. Clone manufacturers filled the void left by IBM. IBM's strategy for dominance replaced customer responsiveness with arrogance and complacence. IBM had lost sight of its customers and its marketplace.

In March 1993, Louis Gerstner, Jr. took over the top management position at IBM. Gerstner's value for customer focus started to become apparent as he worked to transform the blue giant. Shortly after taking over, Gerstner asked IBM's top 100 customers at a retreat in Virginia what IBM was doing right and wrong. The customers were amazed and delighted; this was the first time in IBM's history the CEO had asked the question. By transforming IBM into a more customer-focused organization, Gerstner has been able to turn losses into profits and produce growth in profits and revenues. In 1999, IBM's revenues hit a record $87.5 billion, despite a slow down in the second half of IBM due to Y2k.

5 Conclusion

A market-driven organization puts the customer first in every aspect of the organization, and must possess certain capabilities – market awareness, organizational flexibility, strategic vision, and external relationships. The following are key characteristics of the market-driven organization:

- Delivering value to the customer is the primary objective. All stakeholders are served by meeting this objective.

- Strategies should focus on market segments and customers, including

    o Selecting a strategic discipline – low-cost leader, differentiation, or focus.

    o Whole-product strategies for delivering maximum value to the customer.

    o Strategic relationships to align goals and create synergy.

- The culture should include an obsession with delivering value to the customer and should reward behavior that improves customer service.

- The organization should have a flexible organic structure that can quickly respond to customers' changing needs. Environmental spanners, teamwork, and strategic partnerships are key elements of the structure.

Market and customer focus have been linked to success in organizations. Both Cisco and Home Depot have enjoyed enormous success by fully implementing the market-driven concepts throughout their organization. Gerstner has successfully turned around IBM's decline by re-instating customer focus at IBM. The most successful market-driven companies put the customer first in every aspect of the organization, including goals, strategy, culture, and structure.

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