

Market Management Capabilities of Business-to-Business Firms

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Abstract

Business-to-business marketing has been a main area of academic interest. More recently, various suggestions about the capabilities of firms concerning business relationships have been discussed in particular, and marketing capabilities of the firm in general. This new interest is partially a result of the increased interest in customer relationships and the associated new re-definition of marketing resulting in discussions of alliance competence, collaborative capabilities and network competence, among others. This paper is based on Day's (1994) view of the capabilities of the market-driven firm but extends this view by introducing market-making and market-prioritizing as additional, distinct capabilities. These additions are reflections on two challenges of the original market concept. First, markets are not given but interactively designed. Second, firms need a priority list of their customers in order to relate to individual customers accordingly. The paper argues that the inclusion of the two capabilities allows to be market-driven and market-driving. Also, the argument is made that market management is a better term than marketing.

Keywords: marketing, capability, competence, relationship, market orientation

Introduction

In recent years, many scholars have contributed to the understanding of the domain of marketing as an academic discipline as well as the role, nature and capabilities of marketing functions in corporations (Day 1994, Webster 1992, Homburg et al. 1999). Recently, the capability and resource-based view of the firm has been applied to the field of marketing resulting in suggestions of skills, capabilities and competences of marketing (Lambe et al. 1001, Kale et al. 2002, Ritter & Gemünden 2003). These contributions have challenged and added to our traditional understanding of the marketing function in the corporation. The focus of marketing theory and practice has significantly changed from a transactional, spot-market orientation towards an emphasis on business relationships and the industrial networks. This change does not make traditional marketing capabilities obsolete (e.g. the capability to design products, to decide on price policies, to plan and to execute promotions) but it demands additional, new capabilities of firms. Such a capability is a firm's ability to initiate, maintain, explore and exploit business relationships with customer, suppliers, universities and other actors. Another capability is related to the increasing amount of information available to firms. This means that market orientation can only be achieved with knowledge management capabilities. In addition, value creation for customers has been heavily discussed. Despite the differences between authors there is a general understanding of value as the central cornerstone for understanding exchanges between firms. While the focus on value for customers is important, suppliers' profitability and long term survival must also be considered. With regards to capabilities, firms' ability to create value and to understand the value creation process comes into focus.

Given the scattered map of contributions, there is a need to develop the overall map of marketing capabilities. The paper tries to fulfill this need by revisiting Day's scholarly contribution to the field. After presenting the original two marketing areas, two additional marketing capabilities are developed. Thereafter, the interplay between the four elements of a firm's marketing capability is described.

Market-Sensing

Market-sensing is the process of gathering market intelligence in order to understand the functioning of a given market. This has been heavily discussed under the heading "market orientation" (e.g. Jaworski & Kohli 1993, Narver & Slater 1990). In general, the issue is one of knowledge management. Gaining and processing a lot of information about a market is seen as a key driver of performance. In this regard, CRM software systems have been popular to manage the data wealth.

The capabilities of the firm are hereby related to knowledge management combining different sources into intelligence.

Market-Relating

Relating to customers and markets has been the heart of many definitions of marketing, especially in relationship marketing and service marketing. "Relationship marketing is attracting, maintaining and enhancing customer relationships" (Berry, 1983, p. 25), or slightly rephrased it "concerns attracting, developing, and retaining customer relationships" (Berry and Parasuraman, 1991, p. 133; see also Morgan and Hunt, 1994, p. 4). These customer-oriented activities are also found towards other actors (e.g. suppliers) and the nature of these activities was found to be rather similar (Håkansson, 1982). Therefore, market-relating activities can be seen as a generic set of activities applicable towards various groups of actors in the environment of a firm, the market.

In general terms, market-relating is the process of building bridges between a firm and the actors in their environment (e.g. customers, suppliers, research institutions, governmental organizations). These (potentially many) bridge might well be strong, deep relationships but they can also be distant, transactional connections or hierarchy-like exchanges where one partner is depended on the other. As such, terms like "exchange", "interaction" and "relationship" are not bound to exchanges on equal terms between the actors but are applicable to the whole variety. In order to avoid confusion, I will use the terms partnership to indicate cooperation and relational behavior aimed at long-term interactions.

Most of the contributions in marketing describe relationships on a scale between transactional and relational (table 1 for a selective overview). Hereby, markets are described by opportunistic behavior of the actors who are anonymous, short term focused, easy to replace, and interested only in their own benefits. This understanding of market is based on economic theory and disregards the social factors which are well documented. The definition of markets as exchange – and therewith marketing as exchange management – confuses the use of these terms because exchange may take place in three different settings and combinations thereof (see table 2). I will therefore use the term auction to describe what often is referred to as markets.

Table 1: Selective overview over conceptualizations of different relationships

Author(s)	Different relating modes
Day (2000)	
Coviello et al. (2002)	Transaction marketing – database marketing – interaction marketing – network marketing
Grönroos (1991)	Transactional - relational
Webster (1992)	Transactions – repeated transactions – long-term relationship – partnership – strategic alliance – network organization – vertical integration
Wilson (2000)	

Table 2: Differences between the three interaction modes

Suggested terms	Auction	Hierarchy	Partnership
Traditional terms	Market	Hierarchy	Relationship
Trust ¹ in	Rules	Contracts	Actors
Interaction	Anonymous	Personal	Personal
Time frame	Short	Long	Long
Opportunistic behaviour	High	Low	Low
Power of individual actor	Low	High for superior	Low

Sources: e.g. Alajoutsijärvi, 1999; Bonoma, 1976; Medlin, 2003, Powell 1990, Thompson et al., 1991

Likewise Coviello et al. (2002), I regard the three interaction modes not as mutually exclusive but as complementary to each other; each offering different properties and as such useful in different situations. All three modes (markets, hierarchies, partnerships) are about exchange between two units. In all three modes, we need to distinguish between the institution (and its properties, i.e. the expectations towards behavior and monitoring/enforcement systems) and the individual actors and exchange (and its properties). In all three modes, investments are needed in the institution in order to allow exchange; the individual actor needs to learn the rules of the institution. The effectiveness and efficiency of an exchange mode can be compared with 1) other possible exchange modes (e.g. the gains/losses of a change from transactional market to collaborative relationship); and 2) competitors' operations (e.g. the (dis)advantages other firms have by using similar exchange modes).

Firms need to be able to operate in all the different modes. This assumption is based on the following arguments:

- partnerships are not always good (Ford, 2002) – thus, other modes are needed;
- partnerships require investments – thus, a firm can only have a limited number of partnerships (even when considered necessary);
- partnerships offer value to actors (e.g. Walter et al., 2001) – thus, the partnership mode should be used;
- it is unlikely that a firm can dominate (i.e. maintain hierarchical relationships with) all other actors (such situations are assumed for monopolies or “hub firms” (Jarillo, 1988) but it would assume that a firm has a monopoly/dominant position towards customers, suppliers, etc.)

¹ Please note that trust is equally important for all three modes – it is only the basis of trust (or the reference) which is different.

In terms of capabilities, relating means managing transactional, hierarchical and partnership relations. As such, relational competence and alliance competence as well as 4P market advertising are components of this area.

Market-Prioritizing

This may have many reasons but one significantly contributing factor has been the focus on unique relationships and thus a neglect of the possibility to group customers. This paper argues that the logic of segmentation is still a highly relevant one. However, segmentation should be based on behavioral issues and value creation items. Also, as segmentation is a bit of a misleading word, market prioritization is suggested.

The link between sensing (the intelligence) and relating (the use) is crucial as firms should not have relationships with all actors – nor should they treat every customer, supplier, etc. on a transactional basis. Firms need to decide who the important (key) customers are. Therefore, market-sensing produces a body of knowledge about a market which enables a firm to prioritize actors (e.g. individual customers or customer groups) in some way or the other. Market-prioritizing becomes the binding element; it is seen as an analytical activity at a strategic level.

Traditionally, this activity is associated with segmentation. Despite recent exceptions (e.g. Freytag and Clarke, 2001; Goller et al., 2002), segmentation in business markets has not developed much since its original discussion (Shapiro and Bonoma, 1984; Wind and Cadozo, 1974). This is mainly driven by identified shortcomings of the assumptions for segmentation (Wright, 1996) but also by an “overshooting” of the target, hypersegmentation (Resnin et al., 1979). Especially in business markets, the increased focus on individual relationships and their idiosyncratic nature made segmenting, i.e. putting various relationships into one group, not applicable. However, the contrary is true. As Kara and Kaynak (1997, p. 878) point out, relationships actually requires firms to define which customers to cultivate, i.e. to prioritize.

Firms do have priority lists in order to serve customers in different ways. Because the way of interaction may vary (see above) and the offerings exchanged may vary, firms need to define segments or priority lists. The better a firm performs this, the better it will be able to extract economic value from its activities. Thus, data mining, statistical models, and portfolio planning become an important capability of a firm.

Market-making

Markets have traditionally been regarded as given, so that marketing was concerned about the appropriate reaction to a given situation and at best including marketing research (read market sensing) as a means to understand a given structure. The “clearing” between supply and demand of a market was left to the invisible hand. In this setting, marketing strategy is reduced to find a fit between a given market’s characteristics and the capabilities of the firm. However, markets have been described as networks (Johanson and Mattsson, 1988), in which “there is no ‘invisible hand’ creating a situation of efficiency and health. Instead there are several ‘visible hands’ that try to create situations that are beneficial to themselves” (Håkansson, 1987, p. 89). Thus, markets are not fixed, predetermined, and stable institutions. Firms are not only “takers” of an environment but also “creators” of it. As such, the process of creating/making markets needs to be an integrated marketing activity.

Market making can be distinguished in three situations. First, the most common discussion relates to innovative offerings (i.e. the commercialization phase of innovation processes). For many products and services we know today, markets did not exist a few years ago (e.g. mobile phones, web addresses). A variant of this view is the move of firms into new markets, hereby understood as regionally defined.

Second, market making is also an issue in established markets. Standardization is one example where firms try to create rules of competition (e.g. all computer equipment manufacturers can compete as they use the same plugs (USB etc.) and they all know the software codes to build drivers). Currently, there are two consortia competing for the new standard for DVDs and the winning team has a great

potential to earn money. Discussions on dominant design fall also – at least partially – in this section as they trigger a quasi-standardization.

Third, changing rules can also be seen in privatization (new actors entering a market and the logic of competition is introduced) or in attempts so change customer expectations (e.g. low fare airlines do not offer food, SAS tries to increase the inner-European minimum fare to 1.200 Danish Crones). This market-making version is not creating a new (unseen before) market but creates a new niche in a market or challenges the underlying logic of a market (e.g. people do fly t remote airports with Ryanair, people do buy books over the internet). This activity is associated with discussion of “value innovation” (Kim and Mauborgne, 1997, 1999) or “blue ocean strategies”.

Regarding capabilities, market making demands visionary capacity (i.e. picturing the future) and the mobilization of various actors (i.e. collective action capability).

A Model of Market Management

In the following table, the four elements of market making are compared.

Table 2: Differences between the four market management areas

	Market-sensing	Market-relating	Market-prioritizing	Market-making
Main purpose	Understanding the marketplace Building up knowledge	Exchange and interaction with customers	Structuring market approach Differentiate efforts Allow resource allocation	Develop market potential Change own position in market
Theories	Knowledge management; absorptive capacity	4 Ps, relationship management / KAM, interaction approach, network theory	Portfolio management, risk management, choice/decision making	Network theory, creativity, innovation
Topics	Market intelligence, market knowledge, market learning, market research, satisfaction studies, market orientation	Interaction model, relationship marketing, CRM, transaction costs, relationship value, value models	Network model, partner selection, portfolio models, segmentation	Dominant design, business logic, standards, industry practice, new product launch, market creation
Time of main academic interest	1985-1995	1990 – 2000	2002 -	2004 -

Obviously the four different processes build upon each other, thus are interdependent (though different in nature): While relating to a customer, information about the market can be sensed. Also, the way the market is perceived influenced the way the firm relates to a given customer. The outcome of the prioritization determines the opportunities and modes of the market relating process, and so forth.

Figure 1: Interaction between the four market management areas



In more general terms, the suggested view poses a contraction for the marketing discipline. Marketing in many firms is understood as the part called market prioritizing, whereas market relating is done by the sales department. Strangely enough, nearly all business schools only have a Department of Marketing but no Sales unit. In contrast, firms normally have two separate units for sales and marketing – and usually a lot of coordination problems between them.

Another problem with the term “marketing” (or “marketing management”) is that it disregards the buyer. However, without a buying part, there is no exchange. Also, the four areas relevant for the buyer, as such they are generic. The buyer needs to sense the market, relate to suppliers, prioritize them and make rules and standards. Actually, in recent years, buyers have been much more active on markets and the purchasing literature is full of models suitable for the different boxes.

Therefore, I suggest to use the term “market management” to describe the above areas, hereby understanding market as place of exchange and not as one of three interaction modes (see discussion above).

Outlook

This paper suggests a theoretical framework to rethink the marketing arena. It adds two parts to the Day (1994) model in recognition that markets are not ready made and that firms need to prioritize their resources in relation to their interaction partners. Also, the term “market management” is suggested as a better term to summarize the topic.

There are two boxes of the matrix with are well researched: market sensing and market relating. However, there are many topics to be explored, e.g. the interplay between the different interaction modes. However, the two upper boxes have not yet received sufficient academic attention. Especially market making as been neglected due to a dominance of economic marketing models.

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