

# Market-Driven Management, Market Space and Value Proposition

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## *Abstract*

*In over-supplied markets, companies that have developed market-driven management policies have proved to be able to sustain their proposals, to achieve remunerative income flows and to generate financial resources.*

*A market-driven company is aware of the fact that the opportunities embodied by globalisation are not limited to a mere advantage in terms of reduced costs, but generate conditions for a competitive approach to the market.*

*By revisiting the concept of 'space', market-driven businesses focus their commitment on understanding the customer's assessment; they therefore define their own supply so that they can propose performance that is superior to that guaranteed by competitors.*

*In this context, which determines a clear value proposition, companies have realised that by developing market-space management they can not only modify relations with customers, but even foster the development of collaboration agreements with partners (strategic alliances).*

**Keywords:** Globalisation; Market-Driven Management; Market-Space Competition; Over-Supply; Competitive Customer Value; Value Proposition

## **1. Market-Driven Management and the Quest for Competitive Advantages**

The persisting and dramatic economic crisis that has beset the world markets since 2008, has aggravated the difficulties that businesses were already facing to tackle the widespread situation of structural over-supply.

In fact, since the 1980s, the economic situation has shown a turnaround compared to the past, and demand is proving to be no longer able to absorb the supply originating from manufacturing companies (of goods but also of services). This situation, of quantitative saturation of demand, can be found in markets that have reached an advanced degree of maturity<sup>1</sup>.

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As a consequence, manufacturing and service companies both tend, wherever possible, to replace the traditional *segmentation* (a process that recognises behaviour) by the *aggregation* (in other words, a process that propels behaviour) of demand<sup>2</sup>, to anticipate the competition and win clients/users and consumers.

In this situation, which affects the majority of manufacturing sectors, but does not spare categories of services (of any type), the most prudent companies no longer base their supply exclusively on their products or services, but also on intangible critical factors. What is more, when they define their strategies, they extend their analysis to a wide range of factors and aspects, not limiting it to partial visions. They therefore adopt a strategy of competitive orientation to the market (Market-Driven Strategy).

We can therefore state that in over-supplied markets, companies that have developed market-driven management policies<sup>3</sup> have proved able to sustain their proposals, to achieve remunerative income flows and to generate financial resources, and their ability to listen to the market and consequently to model the supply addressed to it is recognised.

□ *In a market economy, the role of market-driven management is to design and promote, at a profit for the firm, added value solutions to people and/or organizations problems*<sup>4</sup>.

In Webster's view, a market-driven strategy is more pervasive than a simply customer-driven approach, and requires a greater commitment than mere customer orientation. In fact, while the latter remains the founding element of marketing, for a company, being market-driven means dealing with competitors' supply and with their capability, in other words how they are perceived by customers. It also means understanding how customers' needs intersect with the company's capabilities, and also with the products of the competition. These three variables combine to define the value that a customer attributes to the supply proposed to him. Adopting a market-driven strategy therefore demands that every decision taken be consistent with the information about customers and competitors, and based on congruous value proposition<sup>5</sup>.

Market-driven organisations therefore have a marked propensity to reinterpret the concept of 'market'. It is seen from a broad view, which therefore requires a convinced commitment by businesses; this determines the need to guarantee favourable conditions for the adoption of a new strategy, characterised by a competitive orientation to the market. Day feels that this response should be related to a complex combination of several elements, in particular<sup>6</sup>:

a culture oriented to the outside world, with dominant beliefs, values and behaviour that address the continuous quest for new sources of competitive advantage, marked by 'a prevalence of convictions, values and behaviour that emphasises superior customer value and a continuous quest for new sources of advantage';

a distinctive capacity to sense the market, to relate to it and to anticipate strategy policy; 'this means that market-driven firms are more familiar with their markets and better able to form close relations with more remunerative customers. The clarity of their strategic thinking helps market-driven organisations to devise

winning strategies that anticipate opportunities rather than reacting to market threats;

a structural configuration that enables the entire organisation to anticipate and respond to changing customer/user requirements and market conditions; ‘this configuration includes all the other capabilities for delivering customer value – from product design to order fulfilment, plus an adaptive organisational structure and all the supporting systems, controls, measures and human resources policies. All aspects of the configuration are aligned with a superior value proposition.’

These three elements are unavoidable, complementing each other in a systematic perspective; they are not three factors that add up to a simple whole but three strictly inter-related elements that produce joint effects.

A company inspired by a market-based approach is a novelty; the vocation to address the market competitively is expressed in full when all the functions that combine to produce its structural configuration are:

in a position to know, understand and assess the behaviour of the competition, even in advance;

sensitive to the needs perceived by demand, explicitly or implicitly, and therefore characterised by a distinct capacity to understand customers’ needs, and the will to transfer value to customers;

motivated to reach management solutions that can overcome the (organisational) boundaries of individual corporate functions and conventional physical competition space;

the expression of a strong, shared culture that is sensitive to the quest for sources of competitive advantage and oriented to the outside world.

The sources of competitive advantage certainly include the elements that Day has outlined, which define a competitive approach to the market. However we must also include the capacity not only to define a new approach to competition, but also to grasp all the opportunities related to environmental dynamics (technologies, logistics, legislation, etc.).

## **2. Globalisation, Over-Supply and Market-Space**

Business have for some time been affected by structural over-supply, which has resulted in very fierce competition, for several reasons, the most important of which are: technology (both technical-manufacturing-logistic and ITC), first internationalisation and then globalisation, supranational agreements, and so on. The gradual spread of globalisation, in particular, has revealed all the problems underpinning a phenomenon that has forced businesses to face up to this new scenario without being prepared.

Globalisation has accentuated the collapse of spatial boundaries, assisted by the development of telecommunications and transport (and therefore by the evolution in logistics); this has fostered a gradual consolidation of the intangible factors of supply, and not only corporate, which the best prepared businesses have been able to achieve.

Nonetheless, as Brondoni observes, ‘globalisation determines a profound evolution of economic and social bonds, which are slowly transformed from territorial to functional. In the most advanced corporations, social and economic relations embrace a number of interrelated functions (knowledge, information, cultural agreement, adaptability to diversity, action/reaction times, mobility), that go beyond a specific context to a physical space (geographical area, country, ethnic group, administrative context, etc.), organised around the protection of precise and exclusive local rights and duties’<sup>7</sup>.

Companies have pursued market globalisation because it brings much more evident benefits for the entire corporate management than those of internationalisation – which are basically related only to sales volumes.

By globalisation we refer to ‘the combination of processes that remove regional barriers and favour the flow of capital, goods and information on a global scale, and acceptance of the fact that the world functions as a single whole’<sup>8</sup>.

As a result of globalisation, whose advent concluded the process of internationalisation, the services that relied on state-of-the-art technology, electronics in particular, and limited tangible aspects, underwent an epoch-making change which caused them to reconsider. And above all, global corporations realised that the new technical opportunities of telecommunications, above all, annulled former stringent territorial/geographical constraints, making virtual what had once been physical.

□ *For example, the core service of hotel hospitality has not changed, and a guest obviously enjoys them in real and not virtual terms; but some accessory services provided by hotels (reservations, radio and television connections, or the reproduction of films, etc.) have been simplified by technological innovation and affected by the globalisation process.*

On the other hand, other services, from professional training to the management of museums and art galleries have been affected by technological developments at the end of the second millennium, in terms of the facilities they offer their real and potential clients/users.

It is also undeniable that globalisation was not determined exclusively by technological innovation (in electronics, communications, transport, etc.) or by phenomena such as the removal of customs barriers, the review of national legislation, or the extension of economic and political union, but was to a large extent also determined by more strictly economic-income considerations by companies; the growing focus on costs has meant that phenomena related to global markets, such as manufacturing de-localisation, are now of great importance to companies’ strategic analyses. Companies strive to achieve other advantages by globalisation, one of the most significant of which is cost reduction – as an effect of more advantageous localisation, the rationalisation of processes and economies of scale.

What is more, globalisation reduces access time to markets, optimising communications and checks on supply sources, etc.. One effect of globalisation has been to accentuate the importance of the scale of supply, marked by the dimensions

of the volumes dealt with, and accompanied by the gradual marginalisation of supplies on a lower scale (but not necessarily their disappearance); to return to the example mentioned, hotel accommodation continues to be offered even by small local organisations, which also try to make themselves visible by signing up to joint promotional ventures and national or international circuits. However, the real protagonists are the large hotel chains, which can reach millions of potential customers – through IT links – offering them a wide choice, online booking, and advantageous offers, and can also exploit huge management synergies, that can appreciably reduce costs.

As a result, in competitive global markets, space, as a factor of corporate strategy and operations, loses every physical connotation, reducing the constraints that once limited corporate activities.

In this regard, Brondoni notes that “in global markets, businesses compete according to ‘market-space competition’ logics, in other words with competition boundaries in which space is not a fact, a known and stable element of the decision-making process, but a competitive factor, whose profile is configured and modified by the actions/reactions of businesses and governments.

Corporate policies based on an ‘enlarged’ competitive space, in other words without tangible or administrative constraints and conditioning elements (market-space management), envisage the obsolescence of the usual limits of direct and proximity control that define the ‘physicality’ of activities (non-variance of assets produced, quantities achieved with direct checks, finite number of customers and suppliers, static localisation of manufacturing plants, etc.), in favour of operating contexts distinguished by: a prevalence of intangible assets, competitive adaptability and managerial flexibility<sup>9</sup>.”

Space has been transformed from a binding factor to a substantially manageable, and therefore changeable, element that respect corporate strategies and policies, around which the supply for the market is constructed.

□ *Globalisation has removed barriers that were insurmountable just a few decades ago; in spite of the ocean that separates it, Australia is the main supplier of lamb for slaughter to Arab markets; the world’s best known and best selling jogging shoes, from very well-known brands, are marketed by European and North American corporations, but made in Southeast Asian countries (with materials from various sources); customer service call centres for consumer goods are often located at some distance (even outside national frontiers) from the sites where the goods are manufactured or distributed; antivirus software purchased online is produced by a company that has its headquarters in a particular country, but we do not know where it has been developed, or where the server from which the customer downloads it is located; and so on.*

Businesses explore every possibility – legislative, technical, logistical, organisational, etc. – and then locate manufacturing facilities where economic viability suggests, or where they can form strategic alliances with local or foreign partners, in order to rationalise supply and develop new products.

A market-driven company is aware of the fact that the opportunities embodied by globalisation are not limited to a mere advantage in terms of reduced costs, but generate conditions for a competitive approach to the market. This company manages to transfer a higher value to the customer, who consciously understands it, but above all grasps the competition differential. The company puts the beneficiary in a position to appreciate what he has received, assessing it in relation to the need recognised (ex-ante) and to the satisfaction received (ex-post), taking the economic-monetary sacrifice into consideration, the price paid which, together with the figurative costs that the customer actually meets, balances the benefits of the services received, and the satisfaction of the needs recognised.

Market-driven organisations set themselves the goal of transmitting greater benefits to the parties that contact them to fill a need; the benefits transferable may be of two types, which always contribute to the value proposition<sup>10</sup>:

- economical;
- emotional.

Combined with the capacity to make its supply more suitable and advantageous than that of competitors, the propensity to accumulate a number of what could be defined as ‘collateral’ concrete benefits, to the customer’s advantage, becomes a crucial factor of market-driven management, decreeing the success of corporate initiatives.

We can see in any case that any corporate decision, whether strategic or operational, cannot overlook economic aspects, on which income performance relies, together with other aspects.

The persisting situation of over-supply (saturated markets that are unable to absorb the quantities of goods or services launched by companies) results in the definition of new competitive paradigms.

Competition focuses not only on the tangible and intangible elements of supply, but also on curbing manufacturing costs, which naturally makes it possible to reduce selling/supply costs.

As transport develops, the removal of customs barriers and the development of telecommunications technologies have meant that the location of manufacturing sites, or simply, of places where even elementary operations can be performed, respects cost reduction policies, overcoming in importance any other purely corporate considerations.

For years now, the power of the largest multinational corporations has surpassed that of numerous developing countries<sup>11</sup>, where, not infrequently, companies withdraw as rapidly as they arrive, as soon as the decision to transplant there proves no longer viable from a purely economic viewpoint.

### **3. Market-Space Competition and Customer Value**

Space is a ‘dimension’ open to numerous interpretations, depending on the context in which the analysis developed is seen. It is a factor of competition,

dynamic and instable, because of a marked variability linked to the continuous innovation of supply, and the gradual selectiveness of demand.

As noted earlier, space is first investigated as a physical-locational dimension. But observation of current market conditions reveals that the tangible features of supply and the physical constraints (logistical, administrative and geographical) do not determine the competition space; on the contrary, companies' competitive behaviour is dominated by intangible features of supply and virtual spatial coordinates that supplement and qualify the so-called physical dimension, making it possible to rationalise a form of market-space management.

The traditional, consolidated concept of the marketplace has now been supplemented, as an effect of the development of new technologies (*digital* technologies first and foremost) by the overpowering impact of known 'physical' confines, and the concept of *marketspace*<sup>12</sup>.

Whereas the former, *marketplace*, conveys the classical connotation of *physicality*, the latter conveys one of *virtuality*; in fact, the advent of e-commerce has contributed to the birth of a market (virtual, of course) that has made it possible<sup>13</sup>:

to reduce, if not to eliminate, spatial barriers, limiting the constraints imposed on suppliers by geographical borders;

to enable demand to explore and compare numerous different offers, expanding the alternative choices at their disposal;

to cut times and costs to access supply, to extend 'visiting' times to the point of sale (even up to 24 hours a day);

to reduce the price of products and services, which can be extremely advantageous in certain circumstances;

to emphasise the possibility, for demand, of seeking and obtaining information about the subject of the purchase;

to establish a direct lasting relationship with the customer and/or consumer through the ICT channel;

to obtain unmediated feedback, through the same channel, which is useful to assess the strategies and policies adopted, the results pursued and achieved, the satisfaction of customers/consumers, and also the degree to which supply meets the needs of demand;

to allow customers/consumers to take part in forums or discussion lists, entering virtual online communities, which are often promoted by the same companies, even in order to assess demand potential<sup>14</sup>.

In global markets, businesses therefore compete according to new 'market-space competition' logics, in other words with competition boundaries in which space is no longer a fact, a known and stable element of the decision-making process, but a factor of competition, whose profile is configured and modified by the actions/reactions of businesses and governments.

The result is that competition played out in the 'market space' does not only generate a vision imbued with an aura of *virtuality*, but also extends the 'territories' in which the competition is played out.

The rereading of competition space was also a result of the technologies on which the IT platforms that underpin the development of e-commerce are based. These opportunities have enabled companies to pursue the expansion of their market-

space, obliging them to undertake a drastic review of their commercial policies and selling techniques, and of the organisational structures supporting the supply, promotion and sale of their goods/services.

In this context, relations with purchasers have also changed radically; setting aside considerations – however important – regarding the trust shown to a supplier, whom they visit exclusively on their own computer screens, they have modified their purchasing behaviour, abandoning physical access to a place, the sight of the product and consequent tactile experience, and the chance to test it (as in the case of an item of clothing) and to collect it immediately, against payment, also immediate, of the appropriate sum.

Space is therefore seen as the ‘spread’ but also the ‘breadth’ of the supply: Kim and Mauborgne underline that it takes a strategic mindset to create new markets. Rather than remaining within the traditional confines of corporate operations, management should go beyond them, to discover unexplored territories for a concrete enrichment of the value transferred to the customer<sup>15</sup>.

Most companies focus their commitment on the quest for solutions to defeat their rivals, but the result they achieve is usually only a rehash of their competitors’ tactics.

As a consequence, fierce competition between businesses, based on conventional forms of competition, may appear merciless for any company, particularly when markets are in difficulty and can only grow slowly, if at all. Constant striving for innovation (of any type, technical-manufacturing but also managerial) is the only way to counter the economic difficulties.

In this controversial context, beset with economic difficulties that will hopefully only be temporary, but above all with an excess of supply over demand that is structural, firms defend themselves by going on the attack; a capacity/propensity to define *growth strategies* consistent with the new scenario is therefore essential<sup>16</sup>.

As mentioned earlier, a company inspired by market-based corporate logics reveals a superior capability to understand the market, to relate with it and to define anticipatory strategies. As Best says:

□ *‘Our evaluation of product often needs to go beyond economic and price-performance measures of customer value. Customer perceptions of service quality, brand reputation, and costs other than price also affect customer value’<sup>17</sup>.*

By revisiting the concept of ‘space’, and the will to grasp the related opportunities, market-driven businesses focus their commitment on understanding the customer’s assessment; they therefore define their own supply so that they can propose performance that is superior to that guaranteed by competitors.

Businesses must concentrate their commitment on the pursuit of what their customers consider *value*, and management of competition space is focused on this target. The ability to grasp these aspects determines a company’s success, putting it in a position to establish its supply before and better than direct or indirect competitors, or to legitimate themselves as market-driven winners, as Day<sup>18</sup> defines successful entrepreneurs.



Finally, we can see that in this context, which determines a clear value proposition, companies have realised that by developing market-space management they can not only modify relations with customers, but even foster the development of collaboration agreements with partners, implemented both by creating ad hoc corporate structures (strategic equity alliances<sup>19</sup>), and through selective interaction between intercompany teams.

The decisive, never-ending quest for managerial economies underpins most corporate decisions, and choices that might, at first glance, have been linked to commercial, technological, organisational and other strategies and policies, are in fact linked to the need to cut manufacturing costs. The alliances themselves (both non-equity and equity) respond to the need to modify the structure of corporate costs, which can be brought to a more efficient scale by shared research and development activities and subsequently also manufacturing activities.

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## Notes

<sup>1</sup> See J.J. Lambin, S.M. Brondoni, Ouverture de 'Market-Driven Management', in *Symphonya. Emerging. Issues in Management (symphonya.unimib.it)*, n. 2, 2000-2001, who, noting the assertion of a 'global' corporate model, comment that in markets where demand is structurally undersized, the 'economics of supply and corporate intangibles' are taking hold. In this situation businesses are unable to boost sales even by cutting prices while, on the other hand, complex aspects are taking hold in purchasing and consumption, freed of the 'tangible' dimension of the product or the 'central role' of the heart of service. On the other hand, new environments are taking hold 'where there is a

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prevalence of the intangible component of supply, which tend to direct the competition of entire business sectors towards new, instable forms of competition based on intangible factors', as M. Corniani observes in Demand Bubbles Virtual Communities and Market Potential, in *Symphonya. Emerging Issues in Management (symphonya.unimib.it)*, n. 2, 2003.

<sup>2</sup> Cf M. Corniani, *Segmentazione e aggregazione della domanda aziendale*, Giappichelli, Turin, 2004.

<sup>3</sup> Cf. S.M. Brondoni, *L'eccesso di offerta mette in crisi i consumi*, in *Mark Up*, January/February, 2005.

<sup>4</sup> See J.J. Lambin, R. Chumpitaz, I. Schuiling, *Market-Driven Management*, Palgrave MacMillan, Basingstoke, 2007, p. 6

<sup>5</sup> Cf. F.E. Webster Jr., in 'Market-Driven Management', John Wiley & Sons, Hoboken, 2002, p. 57 and R.J. Best, *Market-Based Management*, Prentice Hall, Upper Saddle River, 2005, p. 147.

<sup>6</sup> Cf. G.S. Day, *Market-Driven Winners*, in S.M. Brondoni (ed.), *Market-Driven Management e mercati globali*, Giappichelli, Turin, 2007, pp. 4-5.

<sup>7</sup> See S.M. Brondoni, Overture de 'Market-Space Management', in *Symphonya. Emerging Issues in Management (symphonya.unimib.it)*, n. 1, 2003.

<sup>8</sup> Cf. J.J. Lambin, *Marketing strategico e operativo*, McGraw-Hill, Milan, 2008, p. 31.

<sup>9</sup> See S.M. Brondoni, Market-Driven Management, Competitive Space and Global Network, in *Symphonya. Emerging Issues in Management (symphonya.unimib.it)*, n. 1, 2008, who continues, underlining that 'globalisation has in fact radically changed the traditional basic principles of industrial output (i.e. a coordinated interaction between workers, technologies and materials, and strong standardisation in terms of the temporal and spatial sequence) which, very briefly, was characterised until a short time ago by: efficient output of the highest possible quantity of standardised assets; structures based on a rigid, planned division of roles; the presence of workers on the manufacturing site.

On global markets, on the other hand, organisations shift their strategic levers from the characterisation of assets (differentiated supply) to the qualification of knowledge possessed and managed. Information systems (internal and between companies) thus become a critical factor for a company's development; collaboration between companies is based on the preparation of specific channels and flows of information; and finally, processes organised according to a sequential logic are transformed into relationships formed within 'project-oriented networks' which go all the way to the virtual enterprise. New flexible forms of organisation, in other words, that postulate the division of the structures in terms of space, time and the functions performed.

In terms of space, first of all, the production of specific products is not necessarily located permanently in a specific place; manufacturing processes are usually shared between different companies and no longer require spatial proximity, because the information flows that generate production allow (even partial) output to be transferred physically anywhere in the world, directly by the individual units, without temporal constraints.

In terms of time, 'market-space management' affects the temporal efficiency of production and the supply chain of specific goods; networks with different structures, in different locations, replace sequential systems and processes, so that the manufacturing/delivery time configures the whole manufacturing and logistic needs of the operating units that make up the network.'

<sup>10</sup> Cf. R.J. Best, *Market-Based Management*, Prentice Hall, Upper Saddle River, 2005, pp. 114/115; the economic nature regards the correlation between the sacrifice imposed (payment of a fee, the price) and what is received, in other words it refers to the exchange put in place between two economies.

The meaning of the emotional nature can be personalised to a greater degree by the user, while the economic nature can also be defined as *rational*, the emotional nature is certainly imbued with psychological values, which are not cancelled even when the target is a business user.

However, both values reflect the personal evaluation system of each consumer, whether an entrepreneur, a purchasing manager, a family, etc..

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However complex this is to handle, it does not exempt the company from a constant commitment to seek out every solution to understand the customers' needs, to win them over, to develop a relationship with them and obviously to keep them. The solutions may be substantiated in new products/services, new functions or enhanced existing functions, all with the help of new technologies, changes to the organisational and operational structure (we only have to think of the increased use of outsourcing) and agreements with other parties.

<sup>11</sup> Cf. L. Bisio, *Imprese globali, sistemi di regole e stati-nazione*, in *Symphonya. Emerging Issues in Management (symphonya.unimib.it)*, n. 1, 2005.

<sup>12</sup> In this regard, we refer you to the article by J.F. Rayport and J.J. Sviokla, *Managing in the Marketspace*, in *Harvard Business Review*, November-December, 1994, which states that 'one of the profound consequences of the ongoing information revolution is its influence on how economic value is created and extracted. Specifically, when buyer-seller transactions occur in an information-defined arena, that information is more easily accessed and absorbed, and arranged and priced in different ways. Most important, the information about a product or service can be separated from the product or service itself. In some cases, the information can become as critical as the actual product or service in terms of its effect on a company's profits. As a result, information-defined transactions--or value creation and extraction in the marketspace--create new ways of thinking about making money and thus a new value proposition. Today both marketplace and marketspace transactions are occurring. These companies' experiences provide a useful backdrop for thinking about the marketspace and suggest a strategic model for maximizing opportunities in this emerging area.'

<sup>13</sup> See S. Sciarelli, R. Vona, *L'impresa commerciale*, McGraw-Hill, Milan, 2000, pp. 83 and following.

<sup>14</sup> See F. Gneccchi, M. Corniani, *Le comunità virtuali nella misura del potenziale della bolla di domanda*, in Silvio M. Brondoni (ed.), *Il sistema delle risorse immateriali d'impresa: cultura d'impresa, sistema informativo e patrimonio di marca*, Giappichelli, Turin, 2004.

<sup>15</sup> Cf. W. Chan Kim, Renée A. Mauborgne, *Creating New Market Space*, in *Harvard Business Review*, January-February, 1999.

<sup>16</sup> See D.A. Aaker, *Developing Business Strategies*, John Wiley & Sons, New York, 2001, p. 213.

<sup>17</sup> See R.J. Best, *Market-Based Management*, cit., p. 113, which also states that 'value creation is logically affected by perceptions of product benefits. These perceived benefits are not easily translated from economic benefits or objectively rated measures of product performance, yet, it is customer perceptions of product benefits that drive purchase behaviour.'

<sup>18</sup> Cf. G.S. Day, *Market-Driven Winners*, cit.

<sup>19</sup> See S.M. Brondoni, *Network Culture, Performance & Corporate Responsibility*, in *Symphonya. Emerging Issues in Management (symphonya.unimib.it)*, n. 1, 2003, who notes that 'the largest multinationals of industrialised economies promote multiple forms of competitive cooperation, through strategic alliances of the Equity and Non-Equity type'.