

# **CONCEPTUALIZING EFFECT OF MARKET ORIENTATION ON CHANNEL STRATEGY**

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## **ABSTRACT**

Market orientation literature posits that there exist positive relationship between MO and organization's performance. Research in market orientation has overlooked the importance of market orientation's impact on various aspects of marketing strategy especially on distribution channel strategy. Using capability frame work the paper conceptualizes the relationship between various constructs of MO with channel strategy. The article discusses relevant literature and develops propositions in this regard. The paper proposes that channel structure and intensity decisions are directly related to organizations information generation and dissemination capabilities while level of overall MO determines the intentions to control the channel power.

*Key words:* Market orientation, Channel strategy, Distribution strategy, Marketing Strategy

## **INTRODUCTION**

Literature of marketing argues that success of a firm depends upon the extent to which it adopts marketing concept (Kohli and Jaworski 1990; Narver and Slater 1990; Farrell and Oczkowski 1997; Ngai and Ellis 1998; 2008). Drucker (1954) introduced the concept when he

declared that marketing is not merely a separate function in an organization rather whole business has to be seen from a customer's perspective. It is proposed that market orientation (MO) has a positive impact upon firm's performance (Kohli and Jaworski 1990). Most of the studies done so far have tested relationship of MO with various forms of performance measures such as innovation (Lukas and Ferrell 2000), employee motivation, profitability (Narver and Slater, 1990), ROE (Jaworski and Kohli 1993), ROA (Narver and Slater, 1990), and market share (Jaworksi & Kholi, 1993).

Literature on strategy argues that MO does not impact performance directly; rather performance is the outcome of the strategy that organization pursues (Dobni and Luffman 2003). Day (1994) looked at the performance through the capability frame work and suggested that degree of market orientation possessed by an organization is positively correlated with its capabilities to support behaviour conducive to the development of MO.

So far very little research has been conducted in understanding the phenomenon of market orientation and its impact on various aspects of marketing strategy particularly on pricing, promotion, and distribution issues (Qu and Ennew 2008). Few articles on innovation (Lukas and Ferrell 2000) and on channel and MO (Siguaw, Simpson et al. 1998) are published but very little research has been conducted in understanding the impact of MO on designing marketing strategy of a firm, specially designing of marketing channel. It is therefore the intention of this paper to try and fill this gap in MO theory by conceptualizing the relationship between distribution channel strategy and MO. The significance of this research was also highlighted by Frazier (1999) in his article wrote "*How distribution channels are organized and managed will likely influence the market orientation of entire industries as well as individual firms therein. Therefore, additional research on market orientation in a channels context is critically needed.*" (p 7)

Distribution system or marketing channel plays an important role in marketing strategies of an organization (Coughlan, Anderson et al. 2006) marketing channels decisions are one of the most critical decisions (Kotler 2000). It acts as an asset that helps organization achieve competitive advantage by helping organizations create differentiation (Coughlan et al. 2006).

Since marketing channels are directly involved with customers, hence a distribution system has the ability to generate lot of market related information. Moreover, according to Kotler (2000) information gathering is one of the key functions of distribution channel and according to Kholi and Jaworski (1990) generation of market intelligence is one of the important dimensions of MO, hence distribution channel can play a critical role in developing and fostering MO in an organization. Research in this area suggest that communication among distribution channel members plays a critical role (Elg 2002). Siguaw et al.(1998) examined the impact of market orientation on channel relationships. They found that supplier market orientation increases distributor market orientation. Since distribution strategies are a very critical part of firms overall strategy and it plays an important role in information generation, distribution channel becomes an important variable to study. There being more than one way to set up a distribution channel (Kotler, 2000) while the distribution strategy clearly affects the firm's performance (Coughlan et al. 2006) it can be argued that firm's distribution strategy will have an impact on its performance. Given the above, this article specifically tries to answer the question whether MO affects distribution strategy decisions or not?

The paper is organized in the following manner. Next section reviews the relevant literature of MO and channel strategies and formulates propositions for the relationship pertaining to MO and channel strategy. This will be followed by conclusion section highlighting practical implications of the research.

## **LITERATURE REVIEW**

### **Market Orientation**

Marketing concept is regarded as a corner stone in the discipline of marketing. Marketing concept, according to Mcnamara (1972) is "a philosophy of business management, based upon a company-wide acceptance of the need for customer orientation, profit orientation, and recognition of the important role of marketing in communicating the needs of the market to all major corporate department, this concept later came to be called market orientation.

Market orientation is the implementation side of the marketing concept. This term was

popularised by Kohli and Jaworski (1990) as opposed to the term “marketing orientation”. They argued that this term is much broader and is more acceptable to other departments where as the later is more function oriented and is more closely associated with customer orientation. The term “market orientation” has now become synonym with marketing concept (Lafferty and Hult 2001).

Kohli and Jaworski (1990) defined MO as “*Market orientation is 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*” (p7). According to their definition MO consists of three activities that an organization may undertake these are: Market intelligence generation; organization wide dissemination; and responsiveness – the ability of the organization to take action based on the information generated. They proposed that this construct is a continuum where organizations may fall at any level. Hence it is an issue of degree of market orientation rather than the case of presence or absence of it. The difference, they argued may lie at managing any of the three aspects of MO.

Market intelligence generation refers to the ability of the organization to collect information regarding not only current customer needs but also about the changing trends of the market, both in the task and macro environment, that may influence the future needs of the customer. Intelligence generation is the process that enables the organization to make the information available with and across various departments of the given organization. The dissemination of intelligence should occur through both formal and informal channels. Responsiveness is defined as the ability of the organization to take action in response to the generated and disseminated intelligence This aspect covers both planning in response to market information and speed and coordination among various departments regarding implementation of various marketing programs like segmentation and new product development (Kohli and Jaworski 1990). In a later article (Kohli, Jaworski et al. 1993) the authors presented a 20 item scale to measure MO which they called MARKOR. Using this instrument they identified that there exist positive relationship between MO and various facets of performance.

Narver and Slater (1990), who conceptualized and presented their definition of MO almost at the same time with Kholi and Jaworksi, define MO as” *the organizational culture that most effectively and efficiently creates the necessary behaviors for the creation of superior value for buyers and, thus, continues superior performance for the business.*” ( p. 21)

According to Narver and Slater (1990) MO comprises of three activities called *customer orientation; competitor orientation; and inter-functional coordination*. Customer orientation entails activities that an organization undertakes for acquiring and disseminating information regarding customers. Second component captures organization wide effort to know competitor. In their paper Narver and Slater write: “*Customer orientation and competitor orientation include all of the activities involved in acquiring in- formation about the buyers and competitors in the target market and disseminating it throughout the business*”(p 21). The last refers to the coordination efforts of the business (all departments) to create a superior value for the customer. It should be noted that Narver and Slater’s approached MO from the standpoint of creating sustainable competitive advantage (SCA) and believe that culture hence created will be non-copiable and will lead to creation of SCA. They hypothesized a single dimension construct with three behavioural and two decisional components (long term focus and profit objective).

## **ROLE OF STRATEGY IN MO-PERFORMANCE RELATIONSHIP**

MO is taken as an organizational capability in the literature(Narver and Slater 1990; Day 1994; Morgan and Strong 1998; Dobni and Luffman 2003). Literature on strategy argues that MO does not impact performance directly; rather performance is the outcome of the strategy that organization pursues (Dobni and Luffman, 2003). Day (1994) looked at the performance through the capability frame work and suggested that degree of market orientation possessed by an organization is positively correlated with its capabilities to support behaviour conducive to the development of MO.

As discussed above a lot of research has been conducted on various aspects MO, however researchers have neglected the impact of strategy in MO performance relationship (Morgan and Strong, 1996). This is a critical issue as activities of MO are converted into performance through

strategies that it deploys (Day, 1994; Slater and Narver; 1993). According to Slater and Narver (1996) and Morgan and Strong (1996) market orientation helps in developing organizational and marketing strategies. Dobni and Lufman (2003) concluded that “market orientation facilitates strategy implementation in an organization.” Developing market orientation in an organization is not a straight forward process of proclaiming it. According to Lichtenthal and Wilson (1992) market orientation should be “*a visible hand that guides the behaviour of people each day in performing their jobs*”. Slater and Narver (1996) and Hunt & Lambe (2000) highlight MO’s help in identifying firm’s competitive strategy and propose that there may exist a link between MO and marketing strategy (Slater and Narver 1996). Matsuno et al. (2005) proposed that strategy is a moderator between MO and performance while Gatignon & Xuereb (1997) treat MO as a strategic orientation. Slater and Narver (1996, p. 59) assert that “understanding the link between market orientation and strategies ... is important to our comprehensive appreciation of market orientation’s contribution to organizational effectiveness”.

Morgan et al. (2009) used channel as one of the marketing capability in their paper and showed that it has a positive impact on organization’s performance. According to Coughlan et al. (2006) channel is a source of competitive advantage and helps organization creates differentiation in the highly competitive markets. They argue that channel decisions not only impact the level of service that organization intends to provide but also the positioning and the brand image of the product. Slater and Narver (1996, p. 59) assert that “understanding the link between market orientation and strategies ... is important to our comprehensive appreciation of market orientation’s contribution to organizational effectiveness”.

## **CHANNEL STRATEGY**

Development of marketing strategy requires taking decision not only in choosing segmentation, targeting and positioning, but also to take decision on marketing mix (product, price, place, promotion). Although all are very critical, in their own respect, but in terms of creating MO “place” is very different from all others. As the market sensing and information generation activity can become a source of competitive advantage (Siguaw, Simpson et al. 1998; Elg 2002) channel strategy, becomes one of the most important decision in market orientation.

According to Kabadyia et al. (2007) channel decisions have a direct bearing on company's performance. Company designs its distribution channel to show its long-term commitment to its markets (Rangan 1987). Channel decisions as compared to decisions regarding other Ps, are more difficult to change both in the short and the long run (Coughlan et al, 2006). Channel represents one of the major capabilities of the organization and requires considerable amount of investment and time to develop competitive channels.

Marketing channel is defined by Coughlan et al. (2006) as "a set of interdependent organizations involved in the process of making a product or service available for use or consumption" (pp 2). Channel strategy refers to the principles that guide the firm to choose from various options available to achieve its objectives.

According to Rosenbloom (1991) there are six different decisions that are required while designing channel policy these are: 1) channel strategy formulation; 2) channel structure; 3) selection of channel members; 4) motivation of channel members; 5) evaluation of channel performance and 6) channel control. Rangan (1987) utilized three dimensions to develop the design of a distribution channel: 1) Structure - types of intermediaries like wholesalers , distributors. This is also referred to as number of levels in a distribution channel (Rangan and Ramchandaran 1991) and also to the types of channels being pursued that either single or multiple channels; 2) intensity referring to number of intermediaries in each market; and 3) management considerations regarding what service levels to be provided. The article will utilize Rangan (1987) conceptualization of channel design.

## **MO AND CHANNEL STRATEGY**

A firm can choose single distribution system or may go for dual or multiple channels of distribution or even may go directly to end customer that is without any intermediary (Kotler 2005). The selection not only depends upon customer segment (Coughlan et al. 2006) but also on firm's strategy of positioning of product (Mohr and Nevin, 1990). There are two decisions to be made namely length of channel i.e. how many intermediaries, and types of intermediaries.

A firm may choose to use various formats of distribution (Kabadayi, et al. 2007). The

logic behind going through various channels formats lies in number of customer segments available to the firm (Coughlan et al, 2006). Higher the number of customer segments larger will the number of different types of channels that a firm will utilize. According to literature multiple channel help in increasing sales growth and extended market coverage and better market information (Coelho et al. 2003) along with cost reduction through choosing low cost channels (Sathye, 1999; Thornton and White, 2001; Wright, 2002).

According to Elg (2001) ability to coordinate and communicate effectively is a key ability of an organization. This ability is provides the organization the ability to undertake and execute the key MO activities of information gathering, dissemination and responsiveness and helps the organization in serving its customers in a better way. According to him joint intelligence generation helps in getting knowledge about the markets. Information dissemination pertains to sharing of data between firms while collective responsiveness takes place when both parties join hand to serve the customer in a better way.

Since creation of a market oriented organization involves an implementation of the marketing concept (Deng and Dart 1994), it means that a firm has a higher ability to notice, prepare, and respond on changes in market place hence leading to superior performance. Managing multiple channels require coordinating efforts and multiple places and doing so involves lots of cost, hence organization which have better capability of information generation and dissemination will pursue multiple channel strategy while others will tend to avoid going into so much trouble. Hence organizations with higher level of MO will pursue multiple channel strategy.

Proposition 1a: Higher level of Information generation and dissemination capability will be associated with Multiple channel strategy

#### MO and Channel Intensity

Decision regarding intensity requires company's objective of reach (Coughlan et al, 2006). Intensity refers to the number of intermediaries to be used. The decision has three levels: intensive distribution- using as many as possible; Selective – few intermediaries that match

supplier's criteria; and exclusive distribution where only one distributor serves the entire sales area. According to Frazier (1996) decision on channel intensity requires consideration on the following issues: manufacturer brand strategy, quality, manufacturer channel practices, including manufacturer coordination efforts and support programs. He also highlighted that low quality brands normally use high intensity while high end brands are selective in distribution.

Since an organization that is pursuing high level of MO will tend to have brand as oppose to commodity and will also strive to have high level of channel coordination. According to Frazier (1996) manufacturer devise programs to align distributors objectives and actions with the manufacturers aims. In order to achieve this end it uses coordination and support program technique. Coordination and support refers to the manufacturer efforts to influence retailer's decisions, while manufacturer who wishes to enhance its coordination with the distributor reduce the number of retailer (Rosenbloom 1995) and will try to perform many activities of the channel flow for example promotion, negotiation and will and because of this flexibility will possess higher capability to respond to the marketing changes. Hence it could be argued that organization with high level of MO organization that seeks close cooperation with channel will choose selective distribution strategy.

Proposition 2: Higher level of responsiveness and information generation capability will be associated with Selective/exclusive distribution strategy

However for business that sell commodity business and possess low level of MO (Narver and Slater, 1990) will seek to distribute more hence they will have higher intensity of distribution channel

Proposition 3: Commodity business will have level of intensity of distribution

### ***CHANNEL CONTROL***

*"Power, in its most general sense, refers to the ability of one individual or group to control or influence the behavior of another"* (Hunt and Nevin 1974, p. 186). Channel control is

the ability of one channel member to control the marketing strategy of another channel member (Gaski, 1986). Organizations that seek to gain competitive edge will like to control the behavior of other partners (Sigau et al. 1999). Company will seek those channels where they can control service standards more easily. Frazier (1996) highlighted that using contracts manufacturer can reduce retailer freedom of choice. It can set various standards of performance regarding goals, behaviours and duration of contract for a retailer.

A market oriented company will require channel to have behaviours which are in line with its behaviour (Sigau et al. 1999), hence it will prefer to have policies that are targeted at channel control. It will try to install coordination and control programs (Frazier 1996). According to Rosenbloom (1995) manufacturers that require close coordination will prefer low intensity distribution and would prefer to have low inter-brand competition hence depicting tendency to have more channel control.

Proposition 4: *High market oriented firm will choose such channel strategy where it can maintain high level of control*

## **CONCLUSION**

The primary purpose of this article was to conceptualize the relationship between MO and channel strategy. The article first contributes to the literature on market orientation by focusing on a very critical issue of its relationship with marketing strategy. The joint consideration of these two theoretical concepts shows that how various capabilities of an organization as identified by MO concept influence channel strategy formulation. Proposition 1 and 2 specifically relate to the company's abilities of information generation and dissemination and highlights its influence on choosing channel structure. While proposition 3 puts forward the desire to control channel power with the level of development of MO.

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