

THEORETICAL FOUNDATIONS OF BUSINESS STRATEGY: INTEGRATION OF THE MARKET ORIENTATION THEORY WITH RESOURCE BASED THEORY

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ABSTRACT

This study provides a model of business strategy that integrates the market orientation approach with the resource based view. Each of these previous theories explains only a subset of the critically important strategic variables facing the firm. We develop a theory of business strategy that integrates and jointly evaluates the marketing and revenue factors of the firm with the resource and cost side aspects to attain profit maximization. With the advent of reducing cost and improved availability of information processing technology, market segmentation is becoming more-fine grained. Our approach is to model market segments ‘atomistically’ into individual customers’ features. Products are considered as bundles of features, and our model uses features, not products, as the main unit of analysis and a key strategic decision variable to exactly meet customer’s needs.

INTRODUCTION

This study addresses an emerging issue of business strategy, the decomposition of markets and products into the smallest segments possible. To maximize profits, a firm must decompose its markets into individual customers and its products / services into bundles of individual features (the term products will be used to represent both physical products as well as services). To maximize profits, the firm must also align specific resources to match chosen market segments to exactly satisfy customer needs. This issue is a central responsibility of general managers who must implement business strategies that direct their marketing and operations activities such as making decisions on markets, price, design (product features), and resource costs. This study provides the ultimate in fine-grained analysis, namely ‘atomistic’ or microanalysis based on specific market segments, specific features, individual consumer pricing, specific resource needs, and choice of markets. Using this fine-grained analysis, it models how firms can integrate the market orientation theory with the resource-based view. Although ‘market orientation’ has the major properties of good strategy, its lack of detail on the specific relationships of particular products to particular resources is its primary shortcoming. On the other hand, the ‘resource-based view’ of the firm details how a firm can maintain competitive advantage by controlling ‘important’ resources. Similarly to the market orientation, the resource based view of the firm has the central weakness of lack of detail on how and why specific resources are tied to competitive advantage through specific product features. This study’s central focus is the integration mechanism linking the specific customer benefits to the specific resources that deliver them. The traditional research streams of the market orientation and resource based view of the firm have been not previously been integrated to develop a holistic model for business strategy. Although both streams of research have rapidly progressed, a financial method of evaluating both simultaneously has not previously been developed. This study develops the financial model through a mathematical method of integrating and evaluating the market orientation and the resource based views of the firm. First, it decomposes whole products into

bundles of specific product features. Second, using utility theory, it evaluates customer's individual perceived benefits for each feature. Next, it develops the firm's view of the customer's benefit for each specific feature, for each customer. Through incorporating estimates of the expected cost of each feature, we determine which set of specific features should be bundled to maximize price minus resource cost to maximize profitability. Last, the article develops and illustrates different generic strategies and suggests which resources are needed to support each specific strategy.

In this article, the resource-based strategies include technology, since technology itself is a resource [1]. The market orientation has been refined in two studies by [2, 3] by Narver and Slater (1990) and Kohli and Jaworski (1990). The Narver and Slater [2] definition emphasized the corporate behaviors that affect superior value. The market orientation is defined as "The organizational culture that most effectively and efficiently produces the necessary behaviors for the creation of superior value for buyers, and thus, continuous superior performance for the business." In this study, this definition was utilized to offer testable propositions concerning corporate performance. Kohli and Jaworski [3] clarified the concepts and develop measurable properties for measurement instruments: "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 departments".

In order to measure the degree of success of strategy, this study suggests a new concept called strategic waste. The concept of 'strategic waste' is defined as the opportunity lost by any strategic decision. There are four types of measures that are calculated from the deviations from precisely the correct strategy. These deviations, as forms of strategic waste, are in terms of incorrect market intelligence leading to poor choice of markets, offering incorrect features choices, incorrect pricing, or incorrect resource levels in the supply function of the firm. Table 1 gives the overview of these strategic wastes.

Table 1 Categories of Strategic Waste.

Strategic Variables	Decision	Strategic Error	Strategic Waste
Market		Entry into wrong market	Excess resource cost
		Not entering profitable market	Lost profits due to lost revenues
Features		Too many	Increased cost and no increased revenues
		Too few	Customers not paying higher price due to wrong features
Pricing		Too high	Lost sales due to lack of customers
		Too low	Lower profit margins due to lost opportunity of higher price
Resource		Too many resources for features	Excess cost of not needed features
		Too few resources for customers	Lost revenues due to lack of features

The unique contributions of this paper lie in the power of the detailed analyses represented by each customer's perceived benefit from each specific feature, the firm's choice of markets features, prices, and resources to achieve its optimal profitability. Any mismatch between the firm's decisions on features, prices, resources or market identification is a strategic error and is considered strategic waste. By exactly targeting the customer preferences and values (maximum prices) for each product/service feature by customer, firms will not be wasteful in their production and marketing activities. The implications are that production and marketing activities will be more efficient, that is, closer to waste free. Relative to the firm that supplies only and exactly the features that customers want, at the maximum price that customers would pay, strategic waste is the result of imperfect strategic decisions, concerning marketing or resource variables

THE INTEGRATIVE VIEW OF STRATEGY (IVS)

The integrative strategic view focuses on maximizing the benefits that customers receive from the bundles of features (products) that they purchase. The integrative strategy view does not disagree with the tenet that there should be good match between a firm's resources and its market place offerings, indeed we argue for and model the complete integration of these. In practice, existing resources often carry too much influence on strategic product/feature decisions. In other cases, marketing orientation may dominate, leading to an overly expensive resource specification causing profits to be less than optimal.

This study does not state that the resource-based view of the firm will lead to company non-profitability, but rather this view is a special case of more general theory where the market features and optimal prices are matched to costs to determine the highest profitability and hence best strategy. In the past, many firms have been successful using the resource-based view since the total product happened to match customers' needs. Yet, with advent of more advanced information technology to determine customers exact product/feature requirements, the profitability of purely resource-based strategies will dwindle, except perhaps in commodity markets.

REFERENCES

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