

Expanding abroad: market driving and market driven



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Numerous corporations today are market-centred, paying leveraged attention to both competitors and consumers when planning their market strategies, and practising market orientation. Marketing orientation is the extent to which strategies are designed to build a profitable relationship with existing consumers, while looking outward at competitive pressures (Kotler et al., 2008). According to Tarnovskaya et al. (2007), market orientation can be categorised into two approaches, namely, market-driving and market-driven, which respectively attempt to shape market trends and lead existing customers on a proactive basis and adapts the strategy to target customers' needs.

Market-driving retailers mainly have the biggest market share and become the leaders in terms of price setting, new product innovation, value creation and the expansion of distribution coverage (Tarnovskaya et al., 2007; Tuominen et al., 2004; Rundh, 2001). They are forward-looking into the organisational system and logic of the industry in order to construct value proposition for people who benefit from consuming the products or services. Market-driving strategies have a value-based connection with different stakeholders who can influence the perception and reputation of a firm. Besides, Rundh (2001) and Streeter et al. (2009) expound the sustainability of customer values which should be developed via a correlation with suppliers and partners, using the skills which meet the values consumers will take, and deriving those skills from core competencies to accomplish a sustained competitive advantage in the marketplace.

Although a market leader achieves a favourable market position, a less well-formed business system, competition and characteristics of decentralisation

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and diversification could cause an invalid rationale behind the decisions (Goold and Luchs, 1993). Market-driving retailers can benefit from acquiring required capital and resources to finance their rapid expansion, both locally and globally, using different kinds of growth strategy regarding material sourcing (Tuominen et al., 2004; Tarnovskaya et al., 2007). In addition, they tend to differentiate themselves via the development of new products and channels, as well as continuously changing their products and market strategies. However, Johnson (1996) emphasises the fact that the cost of expansion is relatively high, especially for market leaders, such as investment costs, licensing fees, advertising costs, and so forth which attempt to maintain and enhance their competitiveness in both local and global markets. When expanding abroad, retailers are likely to face the difficulty of adaptation and inadequate control, and they will sometimes be influenced by the domestic legal system (Tarnovskaya et al., 2007).

Tuominen et al. (2004) demonstrate that innovation plays a significant role in a market-driving strategy, with the aim of achieving competitive advantage, leading the market and gaining a greater market share. Yet, market-driving retailers need to invest huge amounts of money and resources in innovation, and bear high risk and uncertainty when launching new products and entering new markets.

Starbucks is an example of a market-driving retailer in the coffee market, who achieves sustainable growth worldwide. Streeter et al. (2009) state that Starbucks demonstrates several core competencies when providing quality products and services, namely, a comprehensive employee training programme, its sole ownership of high quality Narino Supremo coffee beans, <https://assignbuster.com/expanding-abroad-market-driving-and-market-driven/>

and the reputation of its largest coffeehouse chains. These core competencies provide Starbucks with a competitive advantage, and enable it to develop globally by offering customers a higher level of value than competitors, which in turn, justifies charging higher prices.

In 2008, Starbucks failed to enter the Australian market because its business system and networks did not match the local culture, perception and values, making it unable to compete with local high street cafés (Muqbil, 2008). On the other hand, Thompson and Strickland (1999) indicate that Starbucks has adopted the strategy of buying the license of a reputable retailer in the host country to launch its products in other channels such as hotels, grocery stores, colleges, and so forth. For example, when entering the Kuwaiti market, Starbucks initially signed a licensing agreement with the M. H. Alshaya Co., who already had a great deal of experience in food retailing.

Although Starbucks can simultaneously benefit from charging higher prices and high brand loyalty with its favourable reputation, nevertheless, it has applied a product innovation strategy in both products and markets. For example, it adopted a joint venture approach with Pepsi by introducing its innovative product, Frappuccino, in US supermarkets, attracting additional customers from smaller grocery markets (Philips, 1996). Last but not least, Starbucks implements an adaptation strategy and positions itself in the growth stage along the brand/product lifecycle in relation to its global reputation to achieve a high level of long-term stability in the served markets. Yet, this may lead to greater government supervision and a lack of secrecy (Johnson, 1996).

A market-driven strategy refers to understanding market behaviour, and hearing customers' voices within a given market structure (Jaworski, et al, 2000). When expanding abroad, retailers follow the existing industry value chain, while focusing on the behaviour of customers and any player in the value chain, including competitors, suppliers and distributors (Jaworski, et al, 2000). Day (1994) maintains that companies can build a long-term market competitive advantage and economic returns if they react well to market demands. Since current practices prove that the prerequisite to achieving successful expansion is to understand the market by undertaking market research (Kumar et al, 2000), companies are constantly advised to adopt a market-driven strategy, particularly due to its superiority in responding to customers' needs (Weerawardena and O'Cass, 2004).

IKEA is an example of a market-driven retailer. After it failed to break into the Japanese market in the 1980s, it returned to Japan in 2006, having undertaken thorough market research (Carpell, 2006; Wijers-Hasegawa, 2006). Cooper and Kleinschmidt (1987) propose that companies can avoid the risk of offering incompatible products and experiencing cultural conflict by truly satisfying customers' needs. Retailing is an industry which requires sensitivity to local tastes and consumption habits (Murphy, 1999). In contrast to its loss in its first round entry into Japan, IKEA brought its business back into sync by catering for the demands of the Japanese market through offering products in demand and upgrading service levels, such as home delivery and an assembly service. This successful re-entry demonstrates the benefit of pleasing customers, thereby reducing risk to a large extent. In addition, Dawson (2007) proposes that, when expanding abroad, it is critical

to appreciate the influence of different cultures on customers' demands and the market structure, because products and services are different in various economic and social contexts. Undoubtedly, adaptation enables retailers to effectively market abroad and avoid risk caused by offering incompatible products and services across different cultures (Hofstede and Mooij, 2002). From adjusting to mega-store size to creating displays and furnishings specifically aimed to fit small living tatami rooms, IKEA endeavours to convey its appreciation of the Japanese culture and lifestyle, as well as enhancing the store shopping experience in Japan.

However, it has been proposed that economies of scale in production and markets are perceived to be one of the significant benefits of retail internationalisation (Ghauri, and Cateora, 2010). Adaptation to local market needs means that retailers must make up the cost by increasing their investment. Hence, it is imperative to seek the optimal operational approach to achieve cost efficiency.

Notably, Dawson (2007) contends that it is essential for retailers to build a sound relationship with local suppliers. When deploying a market-driven strategy, retailers can benefit from reducing the product cost if they develop a positive relationship with local value chain players. Although IKEA has a central warehouse in Asia, it still fosters a wide range of relationships with local suppliers. Bruce et al (2004) maintain that, unlike elite grocery stores and luxury retail brands, some global companies such as IKEA seldom radically challenge the retail structure in large global markets. As such, the positive cooperation with value chain players makes it possible for IKEA to keep its prices low. This can definitely strengthen its competitive advantage <https://assignbuster.com/expanding-abroad-market-driving-and-market-driven/>

of cost efficiency, and enable it to compete with other rivals, such as Muji in Japan, a strong brand providing value-for-money products with a simple design (Carpell, 2006).

A solid knowledge of market behaviour and structure readily enhances the possibility of success in future product innovation (Cooper and Kleinschmidt, 1987). Although it is hard to achieve a leap in customer value merely by serving existing market needs (Kumar et al, 2000), promoting stable innovation is more acceptable for customers than radical innovation in market structure and behaviour, as long as it means establishing a solid position in the market. By fundamentally fitting the Japanese lifestyle and being accepted by the market, it became possible for IKEA to persuade customers to accept the DIY concept, which is truly embedded in the IKEA idea of “ making an ideal home”. Therefore, a market-driven strategy is perceived to be excellent in facilitating incremental innovation, and further, building long-run competitive advantage (Kumar et al, 2000).

The purpose of this article was to introduce the advantages and disadvantages of market-driving and market-driven market orientation. Market-driving refers to the influence of the market structure, as well as the behaviour of the market players. In the case of Starbuck’s global extension, the firm’s core competencies enable it to correlate with market players and develop different products and market strategies, which form the potential of improving the customer value and performance of the firm. However, decentralisation, diversification and high costs while expanding abroad mean that using a market-driving strategy may lead to a considerable risk for the firm. On the other hand, market-driven focuses on understanding consumers’
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needs and the way of interaction between the firm and other market players within the existing value chain. In terms of its impact on the Japanese market, IKEA became successful by providing products and services which adapted to local needs, as well as exercising cost efficiency. Moreover, market-driven can also achieve incremental innovation without the risk of radical innovation when investing in a new market. In conclusion, although there is a trend of transforming the structure of market-driven into market-driving, the adoption of either market-driving or market-driven should, in fact, be based on the condition of firm, as well as the market it is planning to enter.