Ouverture de ‘Market-Driven Management and Global Markets - 1’

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Abstract

The serious financial crisis that has hit the ‘Western’ world will generate long-term effects and the emergency measures adopted by the more responsible Governments to offset the credit paralysis (support to the mortgage market, public investment in key sectors, incentives to mass consumption, etc.) will take years (at least two to four) to produce positive consequences in the real economy of domestic and international markets.

Globalisation and new competition boundaries thus force companies to adopt a new ‘philosophy of market-oriented competitive management’ (‘market-driven management’), which reformulates the traditional marketing management approach, introduced in the 1950s by Alfred P. Sloan of GM.

In fact, marketing management presuppose an understanding of demand (and above all of its segments). With market-driven management on the other hand, market orientation helps to identify a temporary competition space, in other words a ‘demand vacuum’, which must be maintained highly unstable, by constant innovative proposals.

In global, over-supplied markets, where consumers are increasingly volatile and disloyal, market-driven management is very attractive because it favours: 1. activities focused on the profitability of competition, rather than on mere customer satisfaction; 2. market policies based on innovation and competitive pricing; 3. and finally, even very short-term performance metrics.

Keywords: Market-Driven Management; Global Competition; Marketing Management; Competitive Pricing; Alfred P. Sloan; Global Financial Crisis

1. Overture

The global economy has been overwhelmed by a profound financial crisis that has significantly changed economic paradigms, forms of competition and relations

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between companies. This crisis marks the end of the first stage of the globalisation that developed between the 1980s and 2000, bringing greater well-being for millions of people and unprecedented technological acceleration.

The economic and social development of the large Western economies and the emergence of new, important national corporations are a direct consequence of the globalisation of manufacturing and consumption markets; they are also an inescapable effect of the growth objectives of global companies, with network organisations, ever-larger dimensions and multi-dimensional competition boundaries.

- **Globalisation creates new competition boundaries, modifying traditional time and space competitive relations, which specifically emphasise both that time is a competitive factor (time-based competition) on one hand and also the end of closed dominions coinciding with particular physical or administrative contexts (a country, a region, a geographical area, etc.)**.

- **Globalisation overcomes the static, defined concept of competition space, and it also assigns the development of particular partial competitive advantages (regarding manufacturing, marketing, R&D, etc.), to specific geographical contexts to be coordinated in a vaster system of corporate operations and profitability (market-space management)**.

However, in fact, until the mid-1990s, corporate policies focused on pursuing real performance, favouring productivity targets, market space objectives and activities that might translate into medium/long-term economic results. On the other hand, in subsequent years, the global spread of the market economy, globalisation and increasingly intense competition have driven companies to complex dimensional growth (which imposed multiple offers, vast competition markets and short/very short-term profitability), often also developed with extraordinary financial operations (mergers & acquisitions). This phase of rapid expansion on every-vaster markets has in many cases unbalanced corporate management, favouring financial performance over the natural manufacturing core business and entrusting corporate development to the evaluation and support of financial systems outside the company.

The dominance of financial performances over real performance, the glaring deficiencies of the external surveillance structures and clamorous weaknesses of the rating agencies (Moody’s, Standard & Poors, A.M. Best Co., Fitch, not coincidentally all US-based) has fostered the global financial crisis and its sudden spread. A true catastrophe, which, while it has allowed a handful of top managers – even disloyal – to earn huge sums (like Chuck Prince, CEO of Citigroup, with stock options worth hundreds of millions of dollars; or Stan O’Neal, CEO of Merrill Lynch, who received a $150 million ‘golden handshake’), is generating widespread fears of economic, political and social disorders.

The financial crisis, the interconnected capital markets and the global manufacturing network have a negative effect even on the real economy. The global crisis also magnifies the threats and opportunities for the competitive vitality...
of companies, whose impact on real performance differs for the various types of businesses that now make up the Italian economy (large global corporations, the excellent small/medium enterprises that operate under the Made in Italy label, companies whose proprietors are from outside the EU).

However, more generally, the economic crisis underlines the importance of the new competitive behaviour (market-driven management), which imposes specific variables that are crucial for a company’s success, such as: network alliances (equity/non-equity), R&D with zero-time-to-market, cuts to ‘historical’ operating costs and overheads, development of competitive relationships, and non-marketing competition.

2. Market-Driven Management and Corporate Competitive Vitality

The serious financial crisis that has hit the ‘Western’ world will generate long-term effects and the emergency measures adopted by the more responsible Governments to offset the credit paralysis (support to the mortgage market, public investment in key sectors, incentives to mass consumption, etc.) will take years (at least two to four) to produce positive consequences in the real economy of domestic and international markets.

This financial crisis is the most serious in recent decades and only a considerable effort from all advanced countries can prevent it from evolving into a deep and far-reaching depression.

In some ways, we seem to be reliving the international crisis of the early Seventies (caused then too by a serious oil crisis) which persisted until the late Eighties, in other words until the advent of globalisation and over-supplied markets. As it did then, the construction sector has collapsed in all advanced economies, and there is a profound crisis in the manufacturing industry. Even the services sector (both innovative, like health, personal care, telecommunications, Internet, etc., and traditional, like banking and insurance) reveals huge contradictions. What is more, to confirm the gravity of the situation, on all markets, retail sales of food and non-food are falling significantly and the crisis in the motor industry is now structural (in their financial results for the third quarter, Ford and GM have recorded losses respectively of $129 million and $2.5 billion) and over-supply is destined to result in drastic reductions in output.

Briefly, markets continue to deteriorate rapidly. To survive the crisis and restart the American ‘locomotive’, in his ‘Blueprint for Change’ President Obama identified as priorities: tax cuts for companies that hire new workers, the abolition of the capital gains tax for small companies and a few million new jobs in the environmental sector, sustained by $150 billion government investment. Obama has also announced important tax cuts for the US middle classes and an extension of the benefits system. As a whole, these measures constitute the base to spark a consumption explosion for masses of new medium and medium-low income consumers. This was exactly what happened in the mid 70’s, when ‘sky-high’ consumption was driven by the new consumer products of the mass electronics industry and new designs from the US and Japanese motor industry.

For advanced EU economies, on the other hand, the scenario is similar to that of the first post-war recession. The economies of the 15 are faced with
‘extraordinarily high uncertainty and the intensification and spread of financial instability that will probably damage worldwide demand’ (Jean-Claude Trichet, Head of the European Central Bank). In this context, many economists feel that Italy is in a better situation than other European countries; the banking system has been affected less and above all domestic consumption is falling less rapidly, due to the support of household savings and the widespread use of consumer credit, which many consumers turn to so as not to lower their standard of living. This is above all an effect of efforts by large retail chains to convince customers to buy goods, even of modest value, by instalments (making agreements with finance companies that often grant percentages on open loans).


Market-driven management is a corporate strategy (dominated by customer value and by direct, continuous benchmarking with competitors) which has developed with globalisation since the 1980s, above all as an effect of the many innovations introduced by Toyota (lean production, just in time, total quality, mass customisation, bubble demand management).

□ The Toyota Production System is a method to organise manufacturing processes as an alternative to mass production, i.e. the manufacture of products in series and on a large scale, based on Henry Ford’s assembly line, as perfected by Alfred P. Sloan at GM, with manufacturing specialisation, based on the segmentation of demand and the differentiation of supply. The Toyota Production System was invented in 1940-1950 at Toyota (which, straight after the war, a devastating, lost war, was struggling with a serious lack of raw materials, manpower and funding). Sakichi Toyoda, Kiichiro Toyoda and engineer Taiichi Ohno, based it on the principle of ‘doing more with less’, i.e. using the scarce resources available to significantly increase the productivity of plants. The Toyota Production System is founded on an apparently simple concept: eliminating every type of waste that is inevitably present in manufacturing processes. The Toyota Production System envisages the following stages: 1. Identification of value for the customer; 2. Development of the value creation process; 3. Generation of the value flow; 4. Customer involvement to ‘pull’ the value flow; 5. Development of the process of continuous improvement of supply (kaizen). The extraordinary results obtained using the Toyota Production System led to the global spread of this new manufacturing philosophy, which US-based companies rechristened Lean Production, to underline the importance of eliminating anything superfluous, generating costs rather than value. The Toyota Production System also aims specifically to limit stocks of raw materials, semi-finished and finished products, bringing the customer closer to the manufacturing and selling points (Just-in-Time) with an information system that can control the logistic input/output flow,
manufacturing only when there is demand from the customer immediately downstream in the process flow. The manufacturing logic (Pull Production) contrasts with traditional systems (Push Production), in which manufacturing programmes are decided in advance, inevitably some time before the moment when actual demand is met. And finally, the 'Just-in-Time' system presupposes the extension of logistics to suppliers, integrating them in a ‘Pull Management’ system.

□ Former Toyota President Fujio Cho introduced The Toyota Way in 2001 – an initiative to help employees understand and share the history and spirit surrounding the company’s most important values. The Toyota Way is built on two pillars, continuous improvement (kaizen), and respect for all people, concepts that are at the heart of Toyota’s operations. From this Toyota developed ‘The Toyota Way in Sales and Marketing’. TWSM is unlike other functional Toyota ways, such as the Toyota Production System. The concept and methodology of the Toyota Production System was established mainly in Japan, and then transferred to other countries. When it comes to The Toyota Way in Sales and Marketing, however, the know-how and methodology is created and executed in each individual country and should be shared between countries. To help implement The Toyota Way, the corporation established the Global Knowledge Center within the University of Toyota, a training division of Toyota Motor Sales USA, in July 2002. Global Knowledge Center highlighted workplace vitality, invisible competitiveness and providing an environment for continuous improvement. Invisible competitiveness is an interesting one. Visible competitiveness includes factors such as the sales price or the brand which customers consider when they make a purchase. On the other hand, invisible competitiveness is the actual capacity of companies and employees in the area of R&D or production which customers do not see. Invisible competitiveness consists of production lead time, development speed in R&D, production quality, and the capacity of Group companies and parts suppliers. One of the strengths of Toyota’s invisible competitiveness is production quality. Quality is built-in within processes and ‘the next process is a customer.’ This means that the quality of a product should be insured within each employee’s process on the production line, so no defects are passed on to the next process. This is completely different than the generally accepted philosophy of having only full-time inspectors examine a product at the final stage of production. This is why Toyota has the so-called ‘stop rope’ on its production lines. If there are any problems in quality... any of employees can pull this switch to stop the production line. April 2002 saw the creation of Toyota Global Vision 2010, which identifies four areas of innovation that are set to have a dramatic effect on the company and its products. The first, ‘True to the earth’, involves Toyota becoming ‘a leader and driving force in the reduction, reuse and recycling of resources by implementing the most advanced environmental technologies.’ Toyota’s ‘Comfort of life’ is ‘striving to create an
automobile-based society in which people can live with ease, and in safety and comfort.’ Finally, Toyota’s ‘Excitement for the world’ will ‘promote the appeal of vehicles throughout the world and strengthen Toyota’s brand image,’ and ‘Respect for all people’ reflects the aim ‘to be a truly global company that earns the respect and support of people all over the world.’ Cf. Toyota: The Success Story of 20th Century Automobile Manufacturing and The Toyota Vision for the 21st Century, Yoshio Ishizaka, Senior Advisor to the Board, Toyota Motor Corporation; Former President, Toyota US.

More recently, market-driven management has been adopted by companies that compete on open markets. It reformulates the traditional marketing management approach, introduced in the 1950s by Alfred P. Sloan of GM to overcome the supremacy of ‘product orientation’ that was introduced in the 1930s by Henry Ford with his legendary ‘black Model T’.

□ ‘The traditional concept of marketing focuses on the customer’s needs and ignores the effects of competition, thus providing a partial view of the market... In saturated or stagnant markets, the aggressiveness of competition tends to increase, and anticipating the actions of one’s rivals becomes the primary objective’.

In fact, marketing management presuppose an understanding of demand (and above all of its segments), in order to offer a product that can occupy a given market space. With marketing management the operating process starts from demand, and goes on to define the characteristics of a product destined to fill a specific ‘supply vacuum’ (market space) which tends to be stable for longer periods.

With market-driven management on the other hand, market orientation helps to identify a temporary competition space, in other words a ‘demand vacuum’, which must be maintained highly unstable – in sales volumes and customer expectations – by constant innovative proposals. In other words, the ‘market-driven’ management process presupposes that, first of all, the company should focus on the competition (market-space) to identify temporary demand opportunities (demand bubbles), then choosing the product characteristics that meet demand expectations, in order to prepare contingent (but sound, i.e. defensible in time and space) differential supply advantages (before and better than competitors).

□ ‘Segmentation is, however based on a fundamental prerequisite that is needed to activate the demand disaggregation process and to obtain economically exploitable segments. It is the buying behaviour stability, which relies on the relative stability of market dynamics... Demand bubbles identify temporary groups of purchasers... Demand bubbles arise therefore from a specific, planned company stimulus’.

Globalisation and new competition boundaries thus force companies to adopt a new ‘philosophy of market-oriented competitive management’ (market-driven management), in which ‘competitive customer value management’, dominates, i.e.
sales to unstable customer aggregates (demand bubbles) with direct and continuous benchmarking with the competition.

Very briefly, as we have learned from Toyota’s success (which has actually been little understood or analysed in the last thirty years), market-driven management is now indispensable to compete in saturated markets dominated by unstable and not very loyal clientele.

In global, over-supplied markets, where consumers are increasingly voluble and disloyal, market-driven management is very attractive because it favours: 1. activities focused on the profitability of competition, rather than on mere customer satisfaction; 2. market policies based on innovation and competitive pricing, to encourage uncertain and unstable customers to purchase; 3. and finally, even very short-term performance metrics.

In ‘market-based’ organisations, the corporate culture obliges all corporate functions (manufacturing, sales, planning and control, marketing and finance) to do faster and better than competitors and to be forward-looking with an ‘outside-in’.

□ ‘Positioning advantages are based on a company’s own distinctive skills and its superior abilities and resources... When formulating strategy, management must understand how customers define values on the basis of needs and requirements, how the product is used, and how supply is assessed in relation to that of the competition... Management must also understand competitors’ strategies, their critical skills, their resources and their value proposals. In this way, analysis based on the consumer and analysis based on competition supplement each other to create value oriented to individual target-markets, based on the company’s unique skills and resources seen as a sustainable competitive advantage.

Corporate market-driven management therefore has:
- a cultural dimension, with standards and values (corporate responsibility) that are consistent with the complexity and transparency of global markets;
- an analysis dimension, based on continuous monitoring of the competition system and sustained by pull/push corporate communications flows;
- and finally, an operational dimension, where time is the critical factor of success to manage a profitable variability of demand.

4. Economic Crisis and Competition: Opportunities and Threats for Global Corporations

The worldwide economic crisis will impact in numerous different ways on companies’ competitive vitality. In particular, the opportunities and threats (which are already emerging) of the global crisis for the competitive dynamics of large ‘R&D and management based’ corporations, i.e. guiding corporations that ‘lead the way’ in these crucial changes to competition, as a result of formidable differentials in its professional capabilities and research and development activities, will be considerable.
The depth of the economic crisis, emphasised by the dynamics (both speculative and linked to manufacturing cycles) of oil prices and other raw materials that are strategic for development, indicates that the competitive vitality of corporations has not been subjected to a strong contingent shock, but reveals structural changes destined to modify competitive relationships in the global markets. Exactly as it did in the early 1970s, during another devastating oil ‘crisis’, a new competitive level of energy costs is emerging, destined to impact considerably on the relative position of the various countries and on the growth policies of ‘big corporations’. In actual fact, at a global level, the oil ‘shock’ of the Seventies did not reduce social well-being, nor did it cause consumption to contract. On the contrary, in subsequent decades, car sales increased significantly (at a global level, and specially in countries with more advanced societies), as today’s pollution levels underline. Moreover, many other goods (basic foods, clothing, entertainment, electrical home appliances, etc.) have been ‘pulled’ by the growth of consumption on global markets, often even developing into conditions of over-supply – never seen before in many countries – marked by output exceeding the purchasing potential of the markets, even with falling selling prices. This increase in well-being was ‘paid for’ with a drastic increase in the socio-economic gap between more and less developed countries, underlined by the sudden and virulent growth in the interest shown by certain companies in ‘corporate social responsibility’.

□ ‘The opening of markets, deregulation and privatisation create a constantly expanding economic and financial environment. Information technologies progress constantly, providing us with flexible globalised communication networks... because of their competitive dynamism and entrepreneurial spirit, firms have adapted more rapidly to globalisation than most of the political, social and educational institutions... These market dynamics have largely contributed to the creation of wealth... World trade expansion has played a key role in this growth... Technological progress increases the growth potential of those companies which manage it or benefit from it. Companies make it a competitive weapon: their investments in research and development abundantly exceed those of public authorities... The mechanisms for the redistribution of wealth designed by States at a global level are practically non-existent and inequality continues to grow. Urban corporations listen to society and not only to markets, paying more attention to weak intermittences, and whistle blowers... Urban corporations gradually expand their goals, looking for valid answers to the big political and social issues linked to its role of economic and technical progress... Acting this way, firms enter a logic of general and not commercial domain, thus accepting enlarged social responsibility (Statesmanship) in the search for the Common Good’.  42

□ ‘A new concept of the corporation’s role in society has only recently taken root around the world. This follows the proliferation of cases involving manifest fraud or misconduct (for example, Enron, WorldCom, Merck, Vivendi, Cirio, Parmalat, etc.). Shareholder interest
is being reassessed, as is the interdependence of respect for the law, economic-social-environmental behaviour and the potential to acquire consensus and resources. This leads to a re-thinking of governance orientation, the interaction between governance and management organs, and a profound review of the variables crucial to optimise performance.\textsuperscript{13}

In any case, the greater competitive fallout associated to the new higher energy costs underlines the importance (today, as it did in the ‘70s) of Research and Development (R&D), which large corporations address to very innovative goods with a low energy impact and strong distinctive characteristics, to sell on a global scale.

\textit{In this sense we can already catch sight of the first examples: cars with 2nd generation dual-fuel and hybrid engines; the Euro 1500/1700 car from Tata; mini and maxi PC; low consumption LCD and plasma colour TV; ‘eco-friendly’ solar energy clocks, etc. However, in the new ‘energy saving’ scenario, countries without a robust industrial energy policy – like Italy and other countries in the Mediterranean basin – seem destined to participate only as consumer countries, helping to reduce the costs of global product development.}

In concrete reality, global markets reveal a range of competitive conditions, with a different competitive intensity (an entirely new phenomenon, typical of globalisation) which sum up the interdependence between competitors and partners within a market, assessing the breadth, depth, direction and stability of relationships (one glaring example of this is the recent agreement between Fiat Auto and Chrysler, which would have been unthinkable only a few years ago).

\textit{‘Since the start of the third Millennium, globalisation of production (and the delocalisation of manufacturing activities from socially advanced countries to new areas, in search of ever-lower manufacturing costs), new consumer and import-export markets (with the reconfiguration of EU boundaries, the new socioeconomic role of India, China, Asia and South America), and finally the digitalisation of communication (with the revolution of information flows from ‘linear’ to ‘circular’), have played their part in creating over-supply (D<S) in many markets, i.e. where consumption of numerous assets is no longer able to grow in relation to the quantities produced and/or imported, even at falling prices. In these conditions, the long-term development of the company does not depend primarily on indifferent sales volumes or the physical characteristics of specific products (whose tangible factors are easily imitated), but rather on sales differentiated by intangible supply factors (intangible product assets) and above all differentiated by the level of sophistication of the intangible corporate assets.}\textsuperscript{14}

In markets where competition is particularly intense (i.e. with strong, ramified links between competitors), companies invest heavily in relationships, to strengthen
competitive vitality. This creates network structures made up of differentiated units (some owned, others shared with supplier partners, customers or competitors) destined to perform research and development activities, purchasing, manufacturing, assembly and sales in various combinations (and with relationships that are not always lasting).

The global financial crisis has affected numerous aspects of the traditional corporate networks (based on static long-term alliances), with pervasive effects. Large corporations, in particular, have been exposed to the threats of the crisis in all their markets, but in some situations they appear to be able to exploit opportunities generated by the crisis. There are economic areas for which investments in activities and in management dedicated to R&D have made it possible to accumulate innovative skills and a competitive culture (market-driven management) which represent the key conditions to guarantee competitive development, since the propensity to invest in research and development pursued as the culture of promoting a company’s differential corporate skills, impacts on the company’s competitive vitality.

To sum up, in global markets where competition is intense, the economic crisis is generating threats in the real economy but also opportunities, for companies which (regardless of their size, the location of their head office and their core-business) pursue with absolute conviction their mission of investing in research and development activities, generating distinctive capabilities that are able to promote timely and effective reactions to the changes taking place in the competitive context.

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5 Cf. Jean-Jacques Lambin, Strategic Marketing Revisited after September 11, Symphonya. Emerging Issues in Management (symphonya.unimib.it), n. 1, 2002; Silvio M. Brondoni, Global Markets and Market-Space Competition, Symphonya. Emerging Issues in Management (symphonya.unimib.it), n. 1, 2002; Werner Reinartz, Customizing Prices in Online Markets, Symphonya. Emerging Issues in Management (symphonya.unimib.it), n. 1, 2002; Andrea Francesco Martinelli, From Cornering to ‘Virtual Cornering’, Symphonya. Emerging Issues in Management (symphonya.unimib.it), n. 1, 2002.


7 See Margherita Corniani, Demand Bubble Management, Symphonya. Emerging Issues in Management (symphonya.unimib.it), n. 1, 2002.


10 See Frederick E. Webster Jr., Market-Driven Management e strategia aziendale nei mercati globali, in Silvio M. Brondoni (ed.), Market-Driven Management e mercati globali, cit., p.115.


13 See Daniela M. Salvioni, Corporate Governance and Global Responsibility, Symphonya. Emerging Issues in Management (symphonya.unimib.it), n. 1, 2003.