CHAPTER 6

STRATEGIC INNOVATION AND THE MARKETER

OR, WHY THE MARKETING CONCEPT IS MISCONCEPTUALIZED

IS CUSTOMER ORIENTATION ALL THAT MATTERS?

Most marketing textbooks, usually somewhere in the first chapter, argue that firms should be customer focused, customer driven, or, according to the latest marketing buzzword, customer-centric. They trace a history of the orientations that organizations have adopted and explain why each is faulty. It is wrong to be production oriented, they argue, because in times when most markets are in oversupply situations, producing enough isn't the problem; disposing of it is. It is also wrong to be sales oriented, they contend, because telling customers long and loud how badly they need your product or service is both annoying and wasteful, and usually unnecessary. And focusing on the product itself is myopic and incorrect—this ignores customer needs and wants, and results in the development and production of better mousetraps that no one wants.

Likewise, in their chapters on new-product development and product management, most marketing textbooks take a perspective that successful new products are those that customers have indicated they need, will want, and will purchase. Accordingly, no sensible firm will launch a new product without undertaking marketing research to determine customer needs and wants, and whether the new offering meets or exceeds these. In this book we take a different perspective. There is indeed a strong case to be made for customer orientation, under certain circumstances. However, there is frequently an equally compelling argument in favor of an

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innovation—or product—orientation. In most circumstances, it is not a simple case of "either-or"—executives need to understand the current orientation of their firms and then decide whether this is an appropriate focus. We examine both the customer and innovation orientations, and the possible blends between them, and provide a framework for strategic diagnosis and for the plotting of future direction.*

THE CUSTOMER-PRODUCT DEBATE

Recent strategic management literature has featured a debate concerning various philosophies that have competed as guiding templates for the way in which organizations conduct their business activity.[1] An *innovation orientation* asserts that customers will prefer those products and services that generate the greatest interest and provide the greatest performance, features, quality, and value for the money—in short, technological superiority.[2] Managers in firms that enact a technological innovation orientation devote their energy toward inventing and refining superior products.** A second philosophy, often identified as *customer orientation* (more commonly referred to as *market orientation*), contends that identifying the needs and wants of the target market—and delivering products and services that satisfy these needs—is key to the attainment of organizational goals.[3] Whereas discussion of the innovation philosophy generally refers to issues such as new products, innovation, and discontinuous improvement, discussion of the customer or market orientation philosophy usually concerns matters such as customer service, customer satisfaction, and customer focus.

At times there has been vigorous debate between the two schools, while on other occasions the two streams of thought have seemed to ignore each other. While some scholars have attempted to mediate between the innovation and market orientations,[4] there is a persistence of thinking that one must be right and the other flawed. What this thinking tends to overlook is that market orientation and innovation orientation might indeed be two distinct constructs that can interact in ways that can either facilitate or inhibit strategic success. In simple terms, there is no one right way for an organization to orient itself, and in reality there is no necessary conflict between market and innovation orientations.

TO SERVE OR CREATE? A REEXAMINATION OF CUSTOMER ORIENTATION

Since the time when Peter Drucker stated that the sole purpose of a firm was to create and keep customers, many managers have embraced a customer orientation philosophy.[5] As interpreted by many of his disciples, this meant that to be

*This chapter is largely based on Berthon, P. R., Hulbert, J. M., & Pitt, L. F. (1999). To serve or create? Strategic orientation towards technology and customers. *California Management Review* 42(1): 37–58.
**We use the term *product* to indicate any offering that an organization brings to the marketing, and rather than only in its narrow, physical, tangible sense.

successful, organizations must ascertain the customer's needs and wants and then produce the products and services that will satisfy these needs and wants. Proponents of this perspective argue that companies should be customer driven in everything they undertake, and today, more generally, customer orientation is subsumed under the idea of market orientation.[6] This latter philosophy has typically been considered to consist of three core aspects: customer orientation, organizationwide integration of effort, and clear objectives (profitability).[7]

Drucker rightly receives credit as a progenitor of customer orientation, but often forgotten is the fact that his was a concept of a business as a whole, and it embraced more than a customer orientation. Indeed, he went on to say,

> If we want to know what a business is, we have to start with its purpose. . . . There is only one valid definition of business purpose: to create a customer. . . . It is the customer who determines what a business is. For it is the customer, and he alone, who through being willing to pay for a good or service, converts economic resources into wealth, things into goods. What the business thinks it produces is not of first importance—especially not to the future of the business and its success. What the customer thinks he is buying, what he considers "value" is decisive. . . . Because it is its purpose to create a customer, any business enterprise has two—and only these two—basic functions: marketing and innovation.[8]

Drucker also makes it clear that when he discusses a function he is using the term broadly, not identifying a functional department:

> Marketing is so basic that it cannot be considered a separate function (i.e., a separate skill or work) within the business. . . . [I]t is, first, a central dimension of the entire business. It is the whole business seen . . . from the customer's point of view. Concern and responsibility for marketing must, therefore, permeate all areas of the enterprise. . . . Marketing alone does not make a business enterprise. . . . The second function of a business, therefore, is innovation—the provision of different economic satisfactions. . . . In the organization of the business enterprise innovation can no more be considered a separate function than marketing. It is not confined to engineering or research but extends across all parts of the business. . . . Innovation can be defined as the task of endowing human and material resources with new and greater wealth-producing capacity.[9]

The marketing concept has its genesis in this focus on the customer—finding out what the customer needs, wants, and values and then delivering this as expeditiously and economically as possible. The "how" (the product or service itself) is secondary in this process—a simple means to the end of a satisfied customer. The quintessential focus of a business is the customer, and marketing is the realization of this process. However, taken alone, this is an oversimplification of Drucker's philosophy. Indeed, to focus solely on this aspect is to make an implicit assumption of the simplicity of customer wants and needs. In many cases, the implicit assumption goes further, to suppose the preexistence of a customer.

Drucker spoke of creating rather than just serving a customer. A less well-articulated aspect of Drucker's vision is that which comes before the customer, enables the creation of the customer, and is concerned with innovation: the creation of innovative products and services. Reflecting on this injunction to innovate soon reveals its logic, namely, that needs, wants, and even values often arise when products are created. Product innovation has the potential to engage people's minds and imaginations, thus creating customers. For example, Disney creates the fantasy that creates the customer.[10] Over the longer term, innovation is a prerequisite for creating customers, a quite different process from attracting customers who already exist.

Drucker was not alone among pioneer thinkers in recognizing that serving customers by itself would be insufficient to ensure long-term success. As McKitterick of General Electric argued many years ago,

> A company committed to the marketing concept focuses its major innovative effort on enlarging the size of the market in which it participates by introducing new generic products and services, by promoting new applications for existing products, and by seeking out new classes of customers who heretofore have not used the existing products. . . . Only thinking of the customer and mere technical proficiency in marketing both turn out to be inferior hands when played against the company that couples its thought with action and actually comes to market with a successful innovation.[11]

Webster summarized the situation well when he wrote

> Merely being "customer oriented" in the philosophical sense was not enough, nor was marketing skill, narrowly defined; constant innovation was also necessary to deliver better value to consumers in a competitive marketplace.[12]

Macdonald[13] is concerned that customer focus can create confused business processes, while Christensen and Bower's[14] work suggests that firms may even lose leadership positions by listening too carefully to customers. For longer-term prosperity, the firm must not only meet the needs and wants of today's customer, but must simultaneously innovate to ensure the creation of new customers and the means of satisfying their future needs and wants—a process that has been termed "organizational ambidexterity."[15]

BEYOND CUSTOMER ORIENTATION: THE RETURN TO INNOVATION

Why has so much of the recent literature come to stress serving the customer over creating the customer? The evolution of the literature on customer orientation shows that environmental contingency played a major role. In one of the classic articles in the marketing literature, Robert J. Keith, a director of Pillsbury, suggested that the desirability of a market orientation is contingent upon conditions in the market environment (as we shall see, this is something that is often overlooked). In describing Pillsbury's progression from a production orientation, to a sales orientation, to a marketing orientation, and ultimately to where marketing permeates the whole company he points out that [i]n the early days of the company, consumer orientation didn't seem so important . . . no-one would question the availability of a market.[16]

For many years, companies found adequate solutions to their competitive problems through a well-managed functional marketing operation, typically by means of a marketing department charged with the responsibility for "marketing." Within a time-limited paradigm, serving the customer may well suffice to bring competitive advantage. Over the longer term, however, the critical importance of customer creation will surely emerge. Arguably, serving customers and creating them is an organizationwide responsibility.

Thus, as the business environment changes due to the turbulence of globalization, deregulation, rapid technological development, and unstable financial markets, it becomes even more appropriate to question whether a customer orientation alone will be sufficient to ensure prosperity. In the view of a number of contemporary authors, the answer is that it is not. Dickson, for example, suggests that aggressive competition leads to oversupply, wherein customers are offered more choices and thus become more sophisticated.[17] As a consequence, achieving effective differentiation grows ever more difficult. Marketers' attempts to serve these more sophisticated consumers spur them to innovate incrementally, which in turn leads to imitation and back once more to oversupply. Paradoxically, then, while innovation becomes ever more essential, its advantages seem to dissipate just as rapidly.

MARKETING AND INNOVATION

Many of the studies of the benefits of a customer orientation have been short term and are therefore, by definition, unable to provide insight into the long-term importance of radical innovation and R&D. Indeed, any experienced marketer is aware that markets can mislead as well as inform. For example, Ford of Europe built the Mk4 Escort around "broad" and "deep" market research. When launched, the car was poorly received by both customers and journalists alike; sales volume had to be built through heavy discounting.[18] In some of its later ventures, such as the Puma Coupe, Ford deliberately avoided market-research input. Indeed, Ford went on record to state explicitly that it was now a product-led rather than market- or customer-led company.[19] Quinn[20] describes state-of-the-art technologies (such as those of Cray Research, Genentech, Hughes Electronics, and Kyocera) being developed in freestanding technical units not directly connected to formal marketing units.

Heads of these projects often know more about the technologies than anyone in the world, including potential customers. Thus, as long as demand in the industry to which they sell is driven solely by technical performance criteria, the lab head can essentially define the characteristics of the next generation of products. Although good timing and technical performance predominate in these cases, the project leaders no doubt possess considerable insight into the requirements of their customers.

An innovation orientation turns traditional marketing philosophy on its head: products precede needs and create their own demand by changing the way customers behave. Schumpeter[21] argues that innovations produced by companies are the engine of economic evolution and progress. Deming[22] stresses that the need for internal process innovation is central to competitive position, while Nonaka and Yamanouchi[23] view innovation as the lifeblood by which companies renew themselves. An innovation orientation can be described as having two components: what Zaltman, Duncan, and Holbek[24] call an "openness to innovation" and what Burns and Stalker[25] call a "capacity to innovate."

Sources of innovative ideas include technology, engineering and production, inventions and patents, other firms, and management and employees. An additional source of ideas for new products (and one often overlooked, as we observed in Chapter 3) is the customer. Von Hippel[26] found that in many high-tech industries, a significant percentage of innovative ideas resulted from users developing prototypes themselves. Any broad-scale survey of customers' needs and wants would likely fail to identify these breakthroughs. Innovations by consumers (as opposed to business-to-business customers) are likely to be isolated and by definition extreme outliers. A generic customer orientation would tend to aggregate customers' views and miss the potential contribution to innovation by these outlier customers. An orientation that focuses on innovation, rather than on aggregate customer needs, will more likely recognize these externally generated ideas.

The rationale for an innovation orientation is that technology has the potential to create markets and customers. It can do this by defining human needs, hence determining the nature of consumer demand. Breakthrough technologies, or "killer applications," do not merely change markets, but rather they have far-reaching effects on the way society functions and how human beings work and live, as we will also observe in Chapter 14.[27] By providing customers with new products, services, or processes, advancing technology invariably induces changes in their basic behavior, as we noted in Chapter 3—"changes that are sometimes so fundamental that before long they cannot imagine living any other way."[28] Indeed, as Hamel and Prahalad[29] have argued, being first to a market combined with continual innovation is the key to survival in a turbulent business environment.

COMPETITIVE ADVANTAGE

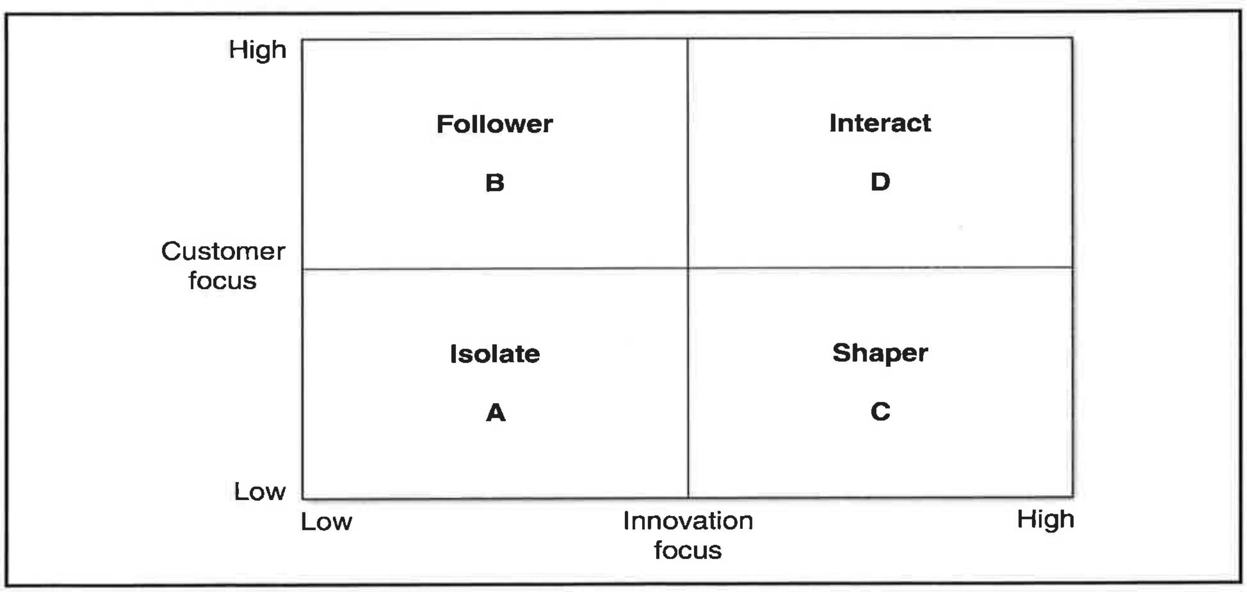
There is ample indication that much of the achievement in the recent past has come from anticipating and creating customer wants.[30] If one embraces a population ecology perspective,[31] then the competitors who survive will likely be ever more proficient in conventional management practice. It therefore appears quite likely that there will be dwindling opportunities to sustain competitive advantage by attempts to simply interpret and respond to existing customer wants. Although managers may perceive more inherent risk in strategies that create and target future needs and wants, accepting such risk is likely to become ever more central to competitive advantage.

CHANGING NEEDS AND ENVIRONMENTS

The pace of change raises another set of issues. If customer needs and wants continue to change rapidly, traditional customer-oriented firms will increasingly be aiming at moving targets. Given the lags inherent in even a radically reengineered product development process, by the time a firm gets its new product to market, it will be virtually impossible to avoid gambling on what customers will really desire. We therefore suggest that managers use the simple framework presented in Figure 6-1 to conceptualize and think about these issues. The matrix in the figure has been referred to as the ICON grid (innovation or customer orientation).[32]

The flow of learning between innovation and customers goes in both directions. There is the flow from customers to innovative technology, which usually involves traditional market research. It might also, however, include informal knowledge and observation of the market by managers and others, novel approaches to market research such as "spending a day in the life of the customer,"[33] and immersion with consumers or buyers.[34] Similarly, there is also a flow from the innovative technology to customers. Changes in technology have

FIGURE 6-1 The ICON Matrix



Source: Taken from Berthon, P. R., Hulbert, J. M, & Pitt, L. F. (2003). Innovation or customer orientation? An empirical investigation. *European Journal of Marketing* 38(9/10): 1065–1090; Berthon, P. R., Hulbert, J. M., & Pitt, L. F. (1999). To serve or create? Strategic orientation towards technology and customers, *California Management Review* 42(1): 37–58.

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the potential to change people's perceptions, expectations, and preferences. Once commercialized, these changes may reshape the way people live, the way society is structured, and the manner in which human beings conceptualize themselves.[35] Saloner[36] has argued that Silicon Valley, a hotbed of innovative companies, "works on a 'field of dreams' business plan: if you build something, customers will come."

While this may seem extreme, anecdotal examples of new technologies that changed markets are legion. Consider, for instance, the changes wrought in working-class lives in the 19th century by the railroad; the changes in American lifestyle resulting from widespread automobile ownership in the middle part of the 20th century; or, indeed, the influence of the integrated circuit and the microprocessor on countless consumer durables, improving their convenience and functionality in ways that consumers enjoy but still do not fully comprehend. Thus, managers and their companies learn from the market, and the market (customers) learns from new technologies and the associated products. This two-way flow, or dialogue, is present in every product or service in every market.

For any one organization, the degree of focus on innovation and/or the customer can vary substantially. By dichotomizing these dimensions, we can identify four strategic orientation modes for the firm (as shown in the matrix in Figure 6-1).

Isolate

The organization itself becomes the focus of its own attention in the isolate mode, for there is little or no communication between innovation and the customer. Technology either stagnates or is developed for its own sake. It is not customer driven, nor is the market modified in any appreciable way by the presence of this technology. This is the classic "isolationist" mode in which either little product development occurs or, when it does, it happens without regard for customer needs or even despite them. Little or no market research happens either. Simply, there is no meaningful communication between product and market—they evolve or stagnate along separate paths.

In the isolate mode the organization becomes introverted, concerned with its own internal problems and operations at the expense of both innovation and customer focus. This mode characterized the British automobile and motorcycle industries during the late 1960s and (especially) the 1970s—remember brands like Austin, Morris, Hillman, Wolseley, and Humber? Limited product development was undertaken, and what was done was often tangential to market needs and preferences. Indeed, the industry became notorious for poor-quality, low-value products—which, while innovative, were shunned rather than adopted.

Follow

The customer drives the innovation in the follow mode. To establish the parameters of products and services and to drive their development, the firm relies heavily on both formal or structured market research (using surveys) and informal or unstructured ("walking in the customer's shoes") market research. This can be done either from scratch (in the case of new-product development) or from an established position (where the product or service is refined). Examples of the former include the development by Toyota of the Lexus, where they attempted to establish exactly what the market would require of a luxury car before attempting to build it, and the development of the M5 (Miata) by Mazda, where engineers played the sounds of engines to potential customers to design the ideal sports car sound into the product. In the service environment, the Courtyard concept by Marriott Hotels, where frequent business travelers were involved in conceptualizing the ideal budget business accommodation,[37] provides another illustration. In the words of the manager who sponsored the project, "In designing the actual product, the research allowed management to focus on the items customers wanted, and we avoided focusing on things important to management but not important to the customer."

SHAPE

In this mode, innovative technology shapes the market. Indeed, potential customers may not have even been aware that they needed or wanted the benefits derived from a particular technology until it became available. Shaping suggests that technology defines human needs and hence determines the nature of customer demand by providing new products or services that induce changes in basic behavior. The product becomes essential in shaping or defining a given market. This typically occurs in two areas: the forming of expectations and the forming of prototypical preferences.

For example, Japanese auto manufacturers followed the forming of expectations route in the 1970s by loading their basic products with options not normally available as standard in their competitors' cars. Customers' expectations were raised, and they began to question why these options were not standard in other manufacturers' vehicles. As a result of these kinds of strategic moves, firms learned the hard way that they needed increasingly to distinguish between qualifying and determining attributes: as competitors become better at fulfilling the important requirements of customers, sometimes the determinants of choice are the less important (but determining) attributes.

SUVs or 4×4 vehicles provide an excellent example of "shaping" products. Indeed, if marketers had done research in the mid-1980s to determine whether a majority of customers would have purchased these products, the vast majority of respondents would have regarded them as crazy. Yet by the turn of the century, in countries such as the United States, Canada, and Australia, around 20% of new passenger vehicles being purchased were SUV/4×4s. Examples of the shaping of prototypical preference strategy in defining the four-wheel drive utility market are Jeep in the United States and Land Rover in the United Kingdom. These manufacturers shaped what consumer psychologists call the customers' category prototypes and disproportionately influenced the criteria against which customers evaluated other, later entrants to the market.

The shaping strategy also manifests itself in two distinct forms: defining and influencing (although it might be argued that the latter is but a delimited version of the former). The defining strategy is one in which entrepreneurial imagination and action combine with often-serendipitous series of events and lead to a product defining a market. In the early 1980s, for example, Chrysler forged ahead with the original minivan concept, despite market research showing that people were strongly negative toward the vehicle. The Chrysler minivan went on to create and define the minivan market.

In the influencing mode, products influence market expectations and trends, but in and of themselves do not define the market, nor necessarily capture it. For example, Apple's Macintosh defined what most customers wanted in a personal computer—a user-friendly tool with a graphic interface that did not require technical computing skills. It did not go on to dominate the PC market. Ironically, Apple seemed to think it might learn these lessons in the case of the Newton, its handheld personal digital assistant (PDA), launched in 1993. "The Newton's features were defined through one of the most thoroughly executed market research efforts in corporate history; focus groups and surveys of every type were used to determine what features consumers would want."[38] Yet the Newton failed dismally and was withdrawn by Apple in late 1996. Freddie Laker's ill-fated airline venture did not delimit the air travel market. However, it did drastically shape the expectations and perceptions of travelers concerning the price of trans-Atlantic travel and opened the way for subsequent entrants. It was no accident that Virgin's Richard Branson wanted to name his first aircraft "Spirit of Sir Freddie."[39]

Not all shaping strategies are good and necessarily productive, since a great many fail.[40] Successful shaping requires the placing of two large bets—one on technology and the other on the market. Failure rates in developing new technologies are notoriously underestimated because of their tendency to sink without a trace. The failure of shaping strategies also occurs because technological pioneers often have a poor understanding of market and customer learning processes. Much of the new research is based on the benefits of being first in the mind of the buyer. However, the technological bias of many innovative companies leads them to believe that being the first to perfect, to produce, or even to sell and distribute is enough to win the marketplace prize. By underinvesting in marketing communications (by design or default), they unwittingly cede their position to a follower. The management consulting firm A. D. Little sees an ironic symmetry to this problem:

> Technologists in fast-moving consumer goods companies—archetypes of marketing-dominated companies—tend to adopt a low profile and do what they are asked to do without much debate, so convinced are they that their companies, being market-oriented, must be marketing-driven. The reverse is equally true: in technology- or engineering-driven companies, marketers often tend to follow—and sometimes mimic—their colleagues in the technical departments (from which they themselves often come).[41]

Interact

A true dialogue is established between the customer and technology in the interact mode. While a dialogue is present over time in any marketplace, at any one time firms are usually engaged in a monologue. The term *dialogue* is appropriate here because it uses the metaphor of speech to underpin the market–technology relationship, providing a spectrum ranging from "conversation" to "negotiation." The term *conversation* conjures up the image of a fairly genteel, two-way flow of information—ideas offered, modified, and evolved. *Negotiation* sums up the harder image of a power play between products and markets, where there are trade-offs of values and features. Many industrial markets operate in the negotiation–interact mode: a prospective customer publishes a bid or tender and invites potential suppliers to submit their offers before moving toward the next step in the development of the product or service. In contrast, tailors have for years involved their customers in conversational dialogues concerning the product that they will in a very real sense "co-produce."

Many of the early automobile manufacturers at the upper end of the market (such as Bentley, Duesenberg, Alvis, and Bugatti) cooperated with independent coachbuilders to make cars to owners' specifications. Interestingly, Rolls Royce seemed to be moving once again in this direction in the late 1990s as a way to distinguish itself from other high-quality car producers. It announced that no two cars leaving its factory would be the same—each car being exactly tailored to the individual customer's specification.[42] The interact position is also used in highly capital-intensive purchasing situations, where the seller has to have some kind of commitment from a buyer before a new product can even be conceptualized. In the passenger jet industry, for example, Boeing worked closely with its major customers, airlines such as United Airlines and Singapore Airlines, to design and produce the Boeing 777. A more recent example is that of Airbus and the AX380, where important customers (major airlines) have been involved in the development of the product.

CHOOSING A MODE OF FOCUS

There is a temptation to be normative about which mode to pursue—devout marketers might espouse a following strategy, and engineers and technologists a shaping strategy. Even an isolation strategy might have adherents—for example, a mining company, extracting base minerals, doesn't really stand to benefit from following, shaping, or interacting. After careful thought, however, interaction would probably get the popular vote. Unfortunately, reality is seldom that simple. Dialogue and interaction may be expensive at best, and irrelevant at worst. Further, although dialogue and interaction may reduce risk, they may be less likely to consistently produce either the breakthrough product or service that characterizes the successful shaper or the devotion to true customer satisfaction that good followers are able to deliver.

A given mode of operation is as likely to emerge by default as by managerial design. Before considering a change of mode, however, managers should review the conditions that might lead them to choose one mode over another.

Environmental Factors

The efficacy of a particular mode is partly contingent on the characteristics of a specific business environment. In a very stable environment, an *isolate* strategy might be effective and economical. In contrast, in an environment of complex and rapidly evolving customer needs and wants, a *follow* strategy would be better. In contexts of rapidly evolving technology (such as genetics), a *shaping* strategy would be most suitable. Finally, where customer needs and wants proliferate and a wide variety of substitutable technologies are present, an *interaction* approach would be appropriate.

Economic Power of Existing Customers

Where the bargaining power of the existing customer base is considerably greater than that of suppliers, a *follow* strategy is likely to be manifest among suppliers. There is some evidence that this change occurs in the food industry, as the power of large customers like Wal-Mart in North America and Tesco in the United Kingdom grows relative to that of their manufacturer suppliers.

Competitive Factors

Globalization and deregulation are intensifying competition in many markets around the world. *Shape* or *interact* modes would appear to be more likely to succeed under these kinds of competitive conditions. In industries with these characteristics, such as computer hardware and software or Internet-based industries, there are countless examples of yesterday's darling being supplanted by the analyst's new love. Consider, for example, the usurpation of Psion and Newton by PalmPilot (and the latter's subsequent tumble at the hands of cell phones such as BlackBerry and Razr), the 1999 fall from grace of Compaq, the growth of SAP outstripping that of Oracle, or the emergence of Amazon.com and its effect on Barnes & Noble's superstore strategy. In such markets, stability is but a temporary illusion, and the market–technology dialogue will be ongoing.

Political Factors

Sometimes, strong constituencies within the firm exert dominant influence on mode choice. For years, brew masters dominated the beer industry and mill managers the steel industry, with important influences on their companies' cultures. Indeed, even where survival is evidently at risk, strong constituencies such as labor unions (consider airline pilots in various post-deregulation disputes) and top management may persist in advocating and supporting an existing mode, obdurately resisting change. Firms typically establish and embed approaches to technology and market deeply in their cultures, and this inertia renders them unlikely to change unless presented with a threat to their survival. Once a given mode is established, however, it is likely that very substantial change will be necessary to bring about a shift from one mode to another.

UNDERSTANDING STRATEGIC DYNAMICS

A given mode is neither good nor bad in and of itself; evaluation depends on how it is used. Organizations change modes over time, and valuable lessons may be learned from each mode. The potentially maligned isolation mode can be a period in which a company turns its attentions inward. This can be highly productive in phases of reflection, reassessment, and reorganization (such as during company mergers).

Despite the likely "stickiness" associated with changes of mode, it has long been recognized that organizations are in a continual state of flux.[43] Thus, there can be movement among the modes over time. For example, a *shaper* might become a *follower,* then lapse into *isolation,* and eventually become truly *interactive.*

It is possible to diagnose a firm's mode of focus. The simple checklist in Exhibit 6-1 can be used by an individual manager to identify the mode of focus mostly followed by his or her organization. Of course, the simple tool is put to even better use when it is used by a group of managers within a firm, to see whether they perceive it in the same way. Having done this, they can then decide whether the mode of focus is the appropriate one under the circumstances, and if this needs changing, what to concentrate on in the change.

EXHIBIT 6-1 The Amended ICON Scale

Instructions: Think about the organization you work for—how it views its customers and its competitors; how it thinks about technology in the form of products and services; its perceptions of the business environment in which it operates, its employees, and, of course, itself. Then complete the short questionnaire that follows. Read each of the four descriptions of an organization (A, B, C and D), and then mark a "1" next to the description that you think best fits your organization, a "2" next to the description that fits it next best, and so on, until you place a "4" next to the description that least describes your organization. In many cases of course, you may find the descriptions quite similar, so read them carefully. Also, there may be instances where you want to say, "It all depends." Don't worry too much about this—there are no "right" or "wrong" answers, so simply record your first impression.

Descriptions of Organizations

1. *Our organization views customers as:*

A. Necessary sources of revenue for the firm ________

B. The primary reason for the firm's existence ________

C. People who will respond positively to innovative products and services ________

D. Co-partners in the development of customized products and services ________

2. *Our organization views innovative products and services as:*

A. A means to extract revenue from customers ________

B. A means of responding to the needs and wants of customer ________

(*Continue*)

C. The primary reason for the firm's existence
D. As something that is co-developed with customers

3. *Our organization views the business environment (factors such as the political and legal situation, the economy, and sociocultural change) as:*
A. Of primary importance, because of its impact on the firm
B. Of primary importance, because of its impact on customers
C. Of primary importance, because of its impact on innovative products and services
D. Of primary importance, because of its impact on the interaction between customers and innovative products and services

4. *Our organization views competitors as:*
A. Rivals who attempt to take away our firm's market share and financial rewards
B. Rivals who attempt to satisfy customers' needs and wants better than we do
C. Rivals who attempt to develop innovative products and services, and who shape wants better than we do
D. Rivals who attempt to engage customers in interaction with innovative products and services better than we do

5. *Our organization views itself as:*
A. A vehicle for the creation of shareholder and employee wealth
B. A vehicle for the creation of satisfied customers
C. A vehicle for the creation of innovative products and services
D. A vehicle for the creation of interactions between customers and innovative products and services

6. *Our organization views employees as:*
A. Dedicated to the service of the firm
B. Dedicated to the service of the customer
C. Dedicated to the development of innovative products and services
D. Dedicated to the establishment of interaction between customers and innovative products and services

Instructions for Scoring

Once you have completed your impressions of all the situations, add up all your scores for "A" descriptions, and place them in the box under "Type A" firms below, then do the same for all the "B" descriptions, then the "C", and so on.

Type "A" Firm	Type "B" Firm	Type "C" Firm	Type "D" Firm

To check your calculations and scoring, you might want to remember that the largest number that could be in a box is 24, and the smallest, 6. Also, once you have completed the four boxes, the numbers in them must add up to a total of 60.

Source: Taken from Pitt, L. F., Salehi-Sangari, E., Berthon, J.-P., & Nel, D. (2007). ICON's influence: Customer and innovation orientations in South African firms. *Marketing Intelligence and Planning* 25(2): 157–174.

UNDERSTANDING THE IMPLICATIONS OF CHANGES OF MODE

Three high-profile cases illustrate some of these transitions from one mode to another.

- ***Boeing***—In the times prior to deregulation, Boeing was a *shaper*. The major U.S. airlines did not possess significant marketing capability, and Boeing stepped into the breach by acting as an ancillary marketing department for its customers, analyzing future patterns of demand and future equipment needs. As the capital costs of new airframes rose, however, evidence of movement toward the *interact* mode began to appear.[44] The 747 relied on a high degree of collaboration with PanAm, but the most dramatic example was provided by the 777, for which eight leading airlines actually provided employees to participate in Boeing's design teams on an ongoing basis.[45] With the decision to drop the development of a so-called Super-jumbo of 600 to 800 seats, however, it appears that Boeing has settled into a *follow* mode. Only British Airways and Singapore Airlines had expressed strong interest in the Super-jumbo proposal, and Boeing decided to follow the rest of the airlines in saying no to the project, at least for the time being. This left the way open for Airbus to step into the open space with the A×380, and for a time in the early years of the new century, it seemed that Boeing might even have become an *isolate*. However, its recent development of the 787 Dreamliner suggests that the firm has once again changed its mode of focus.
- ***AOL***—Initially a *shaper,* America Online dominated the online provision of Internet services, shaping customer expectations of what an Internet provider should be. Others emulated AOL's strategy, with varying degrees of success. However, complacency overtook AOL; its customer base learned and expectations evolved faster than the company realized. From a *shaper* position, AOL slipped back into relative *isolation*. AOL became increasingly out of touch with customer expectations, focusing rather on the internal objective of growth. To this end, in December 1996 AOL offered an unlimited-use fee structure. It came as quite a shock when customers started to rebel at the poor response time the AOL servers were providing. Initial platitudes soon turned into panic. In the late 1990s AOL edged into a *follow* mode, with its customers dictating their requirements.[46] Then with the advent of easily available and affordable broadband Internet access, AOL seemed to slip into an *isolate* mode, with no really new ideas or services, and it does not seem to have recovered from this.
- ***Microsoft***—Initially in *isolate* mode, Microsoft derided the Internet, ignored the market, and did little in the way of product development in the area of a web browser. However, seeing the exponential growth of the World Wide Web—and the explosive success of Netscape, the *shaper* of the browser software market—Microsoft was spurred into action. In a well-documented turnaround, Microsoft moved from *isolate* to *follow* mode. It developed its Explorer browser software by imitating virtually every feature of Netscape's seminal and defining Navigator

product. Indeed the market that Microsoft has come to dominate is littered with *shapers* who haven't always won—Netscape lost the browser wars; it was Apple, not Microsoft, who shaped the market for the graphic user interface with its Macintosh operating system. Yet Apple has been a much smaller player for a long time.

Summary and Conclusions

The mode transitions discussed in this chapter have much in common with Schotter's perspective on economic institutions, namely, that the institution's development can be inferred from the existence of an evolutionary problem, for every evolutionary economic problem requires a social institution to solve it.[47] The history of marketing specifically, and of organizations generally, is consistent with this perspective. Vertically integrated functional organizations (such as Ford at the time of the Model T) dominated the early years of the 20th century, when relatively stable market environments, characterized by low customer purchasing power and simple customer preferences, caused the focus to be on production. Following this, organizations became multidivisional (e.g., General Motors in the Sloan years) in an attempt to be both product and market oriented. The environment of increased spending power and more sophisticated tastes both permitted and necessitated this. As this power and sophistication intensified, however, the multidivisional organizations were in turn supplanted by some form of matrix organization, often attempting to align marketing more closely with science and engineering.[48] In the 1980s, matrices gave way to networks,[49] as it became apparent that many effective organizations, such as those from Japan and Korea, owed their success to factors outside the firm.

Duncan highlights a basic contradiction in organizational structures best suited to innovation versus efficient implementation.[50] His proposal is that organizations should change shape in their transition from innovation to implementation. In Figure 6-1, changing from *shape* mode to *follow* mode might mean becoming far less organic and more mechanistic. Indeed, the *interacting* firm might require the most radical organizational form of all—one that is constantly changing shape, structure, processes, and even objectives. These types of firms have been described as "experimenting" organizations,[51] which are in a constant state of self-redesign, characterized by flexibility and adaptability. An article in *The Economist* illustrates the phenomenon:

> To an unusual degree Silicon Valley's economy relies on what Joseph Schumpeter, an Austrian economist, called "creative destruction." . . . [T]he basic idea is [that] old companies die, and new ones emerge, allowing capital, ideas and people to be reallocated.[52]

It would be tempting for managers to simply look at the strategic modes in the grid in Figure 6-1 and oversimplify by assuming that there is one wrong focus for an organization (the *isolate* mode) and one ideal focus (the *interact* mode, which integrates customer and innovation orientations). While this might be appropriate in an ideal world, in reality there is no such thing as an ideal or a misplaced focus per se. Rather, it is more important that the mode in which the firm operates is pertinent to the environment in which it competes. A case can even be made for the *isolation* mode under certain circumstances, such as in times of crisis in commodity markets or in the instance of a major corporate merger. The greater risk to the organization is a focus that is inappropriate to the circumstances, such as engaging customers in interaction when all that the market requires is to be served, or attempting to serve and follow customers exclusively when the market is ripe for *shaping*. Rather than merely attempting to attain a particular focus, regardless of the situation, decision makers benefit more from understanding what their current mode of focus is and determining whether this mode is appropriate to the circumstances in which the organization finds itself.

In conclusion, the issue is not one of insufficient customer focus or inadequate attention to innovation, but rather of an inappropriate overall strategic focus given the environmental circumstances. When considering customer and innovation orientations, managers must realize that they are not looking at an either/or decision, but rather they must ask which strategic posture will best help fulfill their companies' future goals and objectives.

Key Terms

- customer orientation
- market orientation
- innovation orientation
- marketing concept
- ICON
- archetypes
- mode of focus

Questions

1. How would you respond to a marketer who says, "Focusing on products is myopic and stupid? The only way to ensure business success is to determine what customers want and give it to them."
2. Identify your own examples of organizations or products/services that fit into each of the four quadrants in the ICON matrix in Figure 6-1. Describe them, and explain why you think they fit appropriately into each quadrant.
3. Under what circumstances would it be understandable and acceptable for a firm to adopt an isolate mode of focus?
4. Complete the ICON checklist in Exhibit 6-1 for the organization you work for or one with which you are familiar. What is the mode of focus this organization adopts? Is it the most appropriate mode? What do you think the best mode of focus for the organization would be?
5. How would you advise firms to use both the ICON checklist in Exhibit 6-1 and the matrix in Figure 6-1?

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