

THE MANAGEMENT OF INNOVATION PROCESS FROM MARKET ORIENTATION PERSPECTIVE IN AUTOMOTIVE INDUSTRY

Amalia PANDELICA¹, Mihaela DIACONU²

¹Faculty of Economics, University of Pitesti, pandelica.amalia@yahoo.com

²Faculty of Economics, University of Pitesti, mihaela.diaconu@upit.ro

Abstract: *Marketing and management researchers pointed out, beginning whit '90s, the benefits of implementation of a new business philosophy – market orientation. Even if, the concept has an interdisciplinary approach, all academics and managers started from the same point – market orientation is a business philosophy, which connects all the functional areas of the organization to environment in which operates and ensures long-term profitability. Even if, the market orientation concept was the topic for many researches, in economic literature any framework model of implementation was not developed. In the article we present a framework model, which will emphasise the steps, and changes that an organization has to do to become market orientated, beginning from the particular case of automobile industry.*

Keywords: *market orientation, innovation process, implementation process, automotive industry.*

JEL Classification Codes: M10, M21, M31.

1. INTRODUCTION

The automotive industry passed through important changes and evolved towards new directions. Is no doubt that automotive industry is a highly dynamic and competitive, global industry. The European automotive industry, for instance, contributes to the European economy by creating value added (7% of total manufacturing output), employment (7% of total manufacturing employment), trade (5% of total manufacturing exports), and by investing in research and development (20% Of total manufacturing R&D) (EC, 2006). The changes in automotive industry are quick, and affect all the operators: suppliers, producers, retailers etc. The most important factors, which generated these changes, are: the intensification of the globalisation process, growing competition, the decrease of innovation funds, overcapacity, the evolution of the consumer needs and exigencies and the present oil crisis. Consumer expectations of vehicle quality, reliability, safety, and utility are at an all-time high. In this context the automotive companies have to cope to many challenges, thus: the relocation of the resources and capacities towards low-cost regions, prices pressures, the acceleration of the new products development whit limited resources which have to meet consumers needs, the development of new models whit alternative propulsion, like as – hydrogen, electrical energy. Even if, many managers from automotive industry who participated in the Kohn, Norrgren and Stzhre`s (2001) research stated that their companies occupied good positions they all agreed that because of the changes from the industry it is necessary that their companies to pass through some changes for responding to the new trands. All managers interwed stated

that innovation were one of the most important success factor for maintaining the competitiveness of the company. Also they appreciated that innovation is the key to the challenges in the globalisation process. An important outgrowth of the new global forces taking shape is an increased focus within the industry on research and development. All companies from automotive industry, today is communicating innovation messages:

„Innovation is our mission” – William Clay Ford, Jr. Chairman, Ford Motor Company

„Innovation drives our company and is the Key to the worldwide success of DaimlerChrysler” – DaimlerChrysler Web site

„Toyota is turning challenges into business opportunities by accelerating the pace of its innovation to achieve new growth.” – Hiroshi Okuda, Chairman, Toyota 2004, Annual Report.

In spite of this, automotive companies have to extend their thinking about innovation beyond products and services to business model innovation. As automotive companies face crises, many are beginning to look at new business models.

In this context, our paper has the purpose to build a framework of business model innovation grounded on the market orientation concept beginning from automotive industry case.

2. INNOVATION AND ITS DIRECTIONS

One of the most common misconceptions is that innovation implies only technology changing. There are several directions in innovation field which don't imply technology change: redefining current products and market segments, creating new ones, attacking the competitors etc. As Davida T., Epstein M. J., and Shelton R (2006) emphasised innovation is not just about changing technologies. They also stated that successful organizations combine technology change and business model change to create innovation. In addition, to successfully integrate a robust model of innovation into the business mentality, the leadership team must balance both the business and technology elements of innovation.

Business models is about how a company creates, communicates, and delivers superior value for the consumers. Business model innovators adapt their business to changing market dynamics. The fundamental elements of the business model are: value proposition, supply chain, and target consumers (Davida T., Epstein M. J., and Shelton R., 2006).

2.1. VALUE PROPOSITION

Value proposition is about essentially creation, communication and delivering superior value for the customers. This could be an entirely new product or service or an expanded proposition for an existing offering. In value proposition building, Marketing mission is to create or to extend new benefits for the current customers that are superior to those delivered by the competitors. This process implies many stages, thus:

- The identification of the desired value – implies the identification of the desires and demands of the consumers through gathering market information,
- The dissemination of the market information to all functional departments within the organization,
- The response of the organization – value proposition.

Value proposition is about delivering all promises made by the company to the customers. A fundamental problem for top-management is to understand the perspective of the consumer about value and to build superior value beginning from this perspective. Building value proposition is one of the most important decision for the company. It is very important that managers to motivate all the employees to participate in the value creating and delivering.

2.2. SUPPLY CHAIN

The second element to the innovative business model change is the supply chain. The management of the value chain is considered a great challenge today.

To often innovations are failed because the producers and their suppliers know too less about consumers needs and their perception about innovations. Because of that in automotive industry, one of six innovation is accepted by the consumer. There are too many complicated innovations to be accepted by the consumer. Today, only a few drivers know all about the functions of the cars that they are driving. For instance, 70% of the German and American drivers know about ABS and only 40% have an idea about what is ESC. Even if more and more optional characteristics become usual equipment, optional characteristics are many then ever. Today the consumer are overcome by the big number of models and characteristics. The complicated name of the innovations made difficult for the consumer to understand what is the value of a specific offer.

Many innovations in automotive industry are developed by the suppliers. These innovations are optional equipments for new models. That is why, it is difficult for the suppliers to estimate how customers will accept the innovations, because the innovations depend on the demand of the new model. This implies a high uncertainty and risk for the suppliers. In this context in the future, automotive companies and their suppliers have to test more carefully the success of the innovations. These have to gather the information about what innovations consumers want.

On the other, dealers are the first source of gathering the information about how consumers understand the benefits of innovations. A study emphasized that some dealers allocated 12 minutes to explain to each potential customer the benefits of the innovation while other dealers ignore this aspect. So in automotive industry there is a disconnection between the importance of the innovation for producers and the time allocated for explaining the innovation offered of the consumers by the dealers.

The outsourcing of the process of production of some components and of the research-development process for some characteristics and services make the value chain longer and more complex. The creation, communication and delivery of the superior customer value highly depend on the degree in which all members of the chain system understand, support and operate according to the innovation philosophy. In order for the companies to succeed the alignment of the value chain members to the same goal – that is the creation of the superior customer value – they must conclude strategic partnerships upwards and downwards the value chain system for a better coordination of the entire chain. For automotive industry, the pushing of the innovation process upwards the value chain increases the necessity of re-evaluating the suppliers' certification standards. In future, the producers will wait for social responsibility from their suppliers-partners and also take into account all characteristics of local and global environment and attach a higher importance to the stockholders' demands. On the other hand, the distributors remain the first source of information for the client. The philosophy of partnerships along value chain is vital for the success of the innovation and a great challenge in present conditions.

2.3. TARGET CONSUMER

Changes in the target consumer segments is about when the organization identifies a segment of customers to whom it does not currently direct its marketing, sales, and distribution efforts that would consider its products and services valuable.

The automotive industry is considered one of the most global and concentrated industry, being dominated by a few big companies with global presence. In spite of this, the automotive industry is more regional than global (UNIDO, 2003). So, the automotive companies have to combine in their strategies the two contradictory trends – globalization (standardization) and segmentation (adaptation). There are many differences between local markets or regions which „force” the automotive companies to take to account the adaptation of some characteristics to meet the particular demands from local markets. For instance, the level of income is a factor which modulates the demands from the local markets. The consumers from developed countries are looking for more and more sophisticated innovations while the consumers from developing countries can not pay for this type of innovations. The needs, demands and exigencies of the consumers are modulated by local specific. For instance, the consumers from different markets have different perception concerning with the benefits of innovations. That is why the Asian consumers are more interested in electronic equipment than American consumers. If to all these differences we take to account the local regulation and standards concerning with safety and recycling and taxation we have a framework of the factors which vary from one local market to another. So, the managers from automotive industry have to take to account all this factors when they develop the company` strategy. They have to find the right answer to the following question: „ How many and what characteristics will be standardized or adapted?” The right answer will help the manager to combine the need of costs reduction and the need of meeting different demands from local markets.

3. THE IMPLEMENTATION OF MARKET ORIENTATION

Successful innovation development need a system of elements that fit together: a clear innovation strategy that is connected to the company`s business model, the right team that has the culture to put the strategy to work, an organization that can effectively and efficiently steer the necessary innovation processes.

The business model is directly connected with the success of innovation. Many empirical findings of the researches on market orientation topic emphasised that there is a positive relationship between market orientation and success of innovation. These researches demonstrated that the companies which implement market orientation have high rates of success in the innovative process.

Market orientation is a business philosophy whose implementation leads to the creation of an organizational culture “outside towards inside” oriented which has as a result the connection of all functional departments to the operational environment of the organization and their alignment to the same common goal - the creation of high customer value. This orientation represents a new manner of doing business, which helps the organization to provide quick response to operational environment changes, and leads to the flexibility of organizational structure and to increase of the organization`s capacity of learning.

When market orientation is implemented, the status of marketing department may be less important, because all other functional departments are subordinated to the same common goal - the creation of high customer value. Thus, Kenna (2004) states that:” Marketing is everything and everything is marketing.” A time will come when the borders between functional departments disappear and in such a context, according to Slater, the engineers do not design the product but prepare it for production and the marketers, the sellers and the finance people make a team, which have, as final goal the increasing of high customer value. Serving the clients? It`s nobody`s task but everybody`s task.

Even if, many managers from automotive industry who participated in the Kohn, Norrgren and Stzhre`s (2001) research stated that their companies occupied good positions they all agreed that because of the changes from the industry it is necessary that their companies to pass through some changes for responding to new trends. Because of the price pressure, many managers admitted that they have a production perspective concerning what the company and they are managing all the processes from this perspective. So, the significant change in the company is passing from the traditional method of doing business to a new logic of doing business – the implementation of market orientation.

Market orientation is a business philosophy whose implementation leads to the creation of an organizational culture “outside towards inside” oriented which has as a result the connection of all functional departments to the operational environment of the organization and their alignment to the same common goal - the creation of superior customer value. This orientation represents a new manner of doing business, which helps the organization to provide quick response to operational environment changes, and leads to the flexibility of organizational structure and to increase of the organization’s capacity of learning.

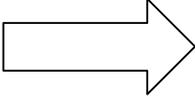
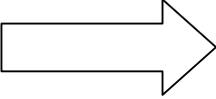
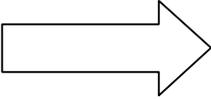
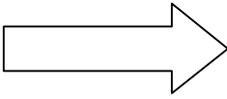
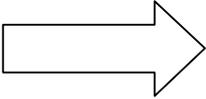
When market orientation is implemented, the status of marketing department may be less important, because all other functional departments are subordinate to the same common goal - the creation of superior value for the customers. Thus, Kenna (2004) states that: “Marketing is everything and everything is marketing”. A time will come when the borders between functional departments disappear and in such a context, according to Slater, the engineers do not design the product but prepare it for production and the marketers, the sellers and the finance people make a team, which have as final goal the increasing of superior value for the consumers. Who serves the clients? It’s nobody’s task but everybody’s task!

Within the companies, which are not market oriented, the marketing department must play the main role in making the top managers aware of the necessity of market orientation. The marketing must find the answer to the question that the management rightfully asks:” Why is it necessary that the company should be (more) market oriented especially that the implementation of this philosophy implies costs, efforts and time? On the other hand, the probability of a failure is not to be neglected because the implementation is, from our point of view, a process of change, which takes into account the both culture and the organizational behaviour and the strategies, the organizational structure, the processes and the operations. As any other change it will face resistance if the need and directions of change are not well understood and supported by all members of the organization.

The most important changes within the organization in the transition period are emphasized in the table number 1.

Table 1. The most important changes within the organization in the transition period and the success factors of implementation process

<p>Past Product orientated organization</p>	<p>Success factors of market orientation implementation</p>	<p>Present Market orientated organization</p>
--	---	--

<p>Made most of the components inside</p> <p>The improvements were made beside own products (inside perspective)</p>	<p>Management` capacity of accomplishing the change</p> 	<p>The production of many components is outsourcing. Practices the partnership with members of the value chain. It is concentrated on the core competences.</p> <p><i>The improvements are made beginning from the feedback (the needs and desires of the consumers) and taking to account the competitors` products (an outside perspective).</i></p>
<p>The organization is managed through functional departments. Traditional organizational structure.</p>	<p>The intensity of change resistances</p> 	<p>The organization is managed through task-oriented interdepartmental teams. Flexible organizational structure</p>
<p>Standardize marketing mix</p>	<p>The involvement of the employees in the changing process</p>	<p>How many and what elements will be standardized and adapted?</p>
<p>Competitive advantage was obtained through cost control</p>		<p>Sustainable competitive advantage is obtained through building, communicating and delivering superior value for the customers</p>
<p>New products were developed slowly</p>	<p>The motivation degree of the employees to accept the change</p> 	<p><i>The development cycle of new products is faster. New products represent the result of interdepartmental work. New products are the result of a good collaboration between C&D and Marketing</i></p>
<p>Innovation process is managed from a technical perspective</p>	<p>The degree of implementation of market orientation of the value chain members</p>	<p><i>The innovation process is managed from customer perspective. The outsourcing of innovation process upstream of value chain.</i></p>
<p>The decision-making process is concentrated to the top-management level</p>		<p>The decision-making process is decentralized. Project manager has increased competences in the decision-making process.</p>

Some managers can consider the opportunity of implementing market orientation only when the organization passes through a crisis period because of the evolution of some external or internal factors. In this case, the implementation process implies sudden changes and sometimes can imply radical changes within the organization. Other managers will decide to implement market orientation taking into account a realistic and desired future image of the

organization. In this case, managers will adopt the „step by step” implementation, avoiding change resistances. Even if we are talking about a radical or a „step by step” implementation, managers have to know that the implementation is a long-term process.

Taking into account the main changes that should occur within the transition process, we think that some phases should be done within the market orientation implementation:

Diagram No 1. The phases of market orientation implementation

The analysis of the current situation of the organization and the need for change

What is the present situation of the organization?

What is the present situation of the industry in which the organization operates and which are the future trends?



Developing market - oriented vision

Where does the organization want to get in the future?

What is the position of the client within the future image of the organization?



Developing market - oriented strategy

What is the direction to be followed to achieve the future image of the organization?

What is the new position of the client?

The release of programs for the employees to become aware and motivate them to accept the new position of the client



Redefining the organizational structure

The settlement of inter-departmental task oriented teams

Blunt and flexible organizational structure

Decentralizing decision-making



Re-organization of processes and operations

Inter-departmental task oriented teams

The creation of superior value for the client



The motivation of value chain members to adopt and support market orientation

Concluding strategic partnerships with members of the value chain system

The creation, communication and delivery of the high value for the client



Upwards



Downwards

Source: Authors' point of view

4. CONCLUSIONS

The automotive industry is passing through important changes. In this context, managers from automotive industry admit that „The traditional way of doing business is not an option anymore”. Also, they accept that automotive companies have to pass through some changes to have the capability to cope to the environmental changes emphasized in this paper. So, the automotive companies have to be (more) market orientated.

Market orientation is not a new concept, it was stated beginning with '90. Even if some academics consider that market orientation is more a discussed topic than a set of managerial practices, empirical findings emphasize that there is a positive relationship between market orientation and organizational performance.

The implementation of market orientation generates important changes within the organizational culture, strategy, organizational structure, processes and operations. Managers

from automotive industry have to analyse the opportunity of implementation of market orientation taking to account not only the present situation of the firm and the industry, but also the future trends of the industry.

The paper is a point of view one and is based on the empirical findings of many researches on the market orientation concept. The limits of the paper come from the fact that we developed the methodologically framework of implementation taking to account only the case of a product oriented firm, but in the practice the car companies have already different degree of market orientation. Also, the most important changes from the transition period are only emphasised without being developed.

The paper offers to the academics further research directions and represents a guide of market orientation implementation for the managers from automotive industry and not only.

REFERENCES

1. Beaujanot, A.Q. and Lockshin, L., *"The importance of market orientation in developing buyer-seller relationship in the export markets: the link towards relationship marketing"*, www.unisa.edu.au, 2004
2. Blankson, C. and Cheng, M.S., *"How small businesses adopt the market orientation concept? The case of small business in Michigan"*; Journal of Business & Industrial Marketing, 2005.
3. Gauzente, C., *"Why Should Time be Considered in Market Orientation Research?"*, Academy of Marketing Science Review, 2001.
4. Gonzales, J. and Chiagouris L., *"Internet Support Companies: The Impact of Marketing Orientation"*, Journal of Internet Banking and Commerce, 2006.
5. Gotthelf, K., *"Competitiveness in Thai business through market orientation"*, AFAR, 2005.
6. Heiens, R. A., *"Market Orientation: Toward an Integrated Framework"*, Academy of Marketing Science Review, 2000.
7. Houston, F.S., *"The Marketing Concept: What It Is and What It Is not?"*, Journal of Marketing, A.M.A., 1986. *"Developing Countries"*
8. Humphrey, J.; Memedovic, O.; *"THE GLOBAL AUTOMOTIVE INDUSTRY VALUE CHAIN: What Prospects for Upgrading"*, UNIDO, 2003
9. Jaworski, B.J.; and Kohli, A.K., *"Market Orientation: The Construct, Research proposition, and Managerial Implications"*; Journal of Marketing, 1990.,
10. Kohli, A.K.; Jaworski, B.J. and, A. Kumar, *"MARKOR: A Measure of Market Orientation"*, Journal of Marketing Research, 1993.
11. Kohn, K.; Styhre N.&A.; *"Working cross-functionally, a step towards market-driven organization: The Case of Volvo Cars"*, 2001, www.fenix.chalmers.se
12. Kotler, P., *"Marketing Management"*, Ed. Teora, Bucuresti, 2003.
13. Lara, P.R.; Gutierrez E.; *"Exploring the market orientation concept in the Spanish pharmaceutical industry"*, www.proact2006.fi, 2006
14. Lado N. and A. Maydeu-Olivares, *"Exploring the link between market orientation and innovation in the European and US insurance markets"* International Marketing Review, 2001.
15. Rabb, M.D., *"Building a Customer Value Model"*, www.info@CLIENTxClient.com, 2005.
16. Schlosser, F. K. and McNaughton, R.B., *"Building Competitive Advantage upon Market Orientation: Constructive Criticisms and a strategic solution"*, ASAC, 2004.
17. Slater, S., *Market orientation, customer value, and superior performance*, Business Horizons, 1994
18. *** *"Leadership in the Automotive Industry"*, 2006, www.spencerstuart.com