

# THE MYTH AND REALITY OF CUSTOMER ORIENTATION

**István Piskóti, PhD**

Marketing Institute, University of Miskolc

Senior Lecturer

Address: Egyetemváros, Miskolc, Hungary H-3515

Telephone: ++ 36 46 565 196

E-mail: [piskoti@uni-miskolc.hu](mailto:piskoti@uni-miskolc.hu)

**Szabolcs Nagy, PhD**

Marketing Institute, University of Miskolc

Senior Lecturer

Address: Egyetemváros, Miskolc, Hungary H-3515

Telephone: ++ 36 46 565 196

E-mail: [marvel@uni-miskolc.hu](mailto:marvel@uni-miskolc.hu)

## **Abstract**

In our modern times companies need to carry out complex customer-management strategy to be successful in the market, which should be based on the classical customer orientation theory and its modern interpretations. Intense competition, price-sensitive markets, long-term cooperation demanding business networks and IT supported business solutions made it necessary to re-discover and re-write the classical marketing theory of customer orientation. There is no doubt that customer orientation and customer-focused strategies are keys to success for business and non-business organizations. Whereas, this market-sensitiveness is not always present in the common practice of today's entrepreneurs. In this paper the focus will be placed on different interpretations of customer orientation since even the literature is not unambiguous. Once customer orientation is a strong force in creating market success, then its relevance is decreased. In our researches in Hungary we found that market orientation is an important factor in market success, in practice and theory as well.

**Keywords (bold):** customer orientation, market success, marketing theory and practice, Hungarian aspect

## **I. Introduction**

All books about marketing mention customer orientation in the first place when outlining the essence of marketing so much that its correct definition is often missing. Therefore customer orientation is not else than the general principle of taking care of customers instead of being the art and science of marketing. It has been found that the diversity of this concept and its different interpretations caused the misuse of customer orientation in marketing practice.

Customer orientation by definition is "the business seen from the point of view of its final result, that is, from the customer's point of view." (Peter F. Drucker, 1994, p.39), i.e. „a way of thinking and business practice where each decision of the company is in sync with customer's requirements.” (Bauer-Berács 2006. p.16.)

In this definition we can find the efforts for fully satisfying customer requirements, while it also raises some questions such as how we can recognize customer requirements and how they can be translated to the language of marketing, etc. It is always big question what is the best research method to find out customer requirements; to choose the best ones to meet; how to influence or manipulate them.

It is not so evident that customers can formulate or outline what they really need, since they might have only limited knowledge of products/services in markets where new technologies had been emerged or where she or he is not that much interested in. It is not by chance that innovation marketing is in the forefront again as we have to find such marketing solutions that guarantee long term business success in markets lacking customer competency. Customer orientation is no longer can be based upon the “ask then accomplish” principle.

Customer orientation is in the centre of marketing orientation and marketing concept. It focuses not only on customer needs and requirements but also on data collection, the

knowledge of market competition, regulation, future and current trends. It also coordinates different departments and transmit information inside the company. Coordinating marketing means horizontal flow of information among corporate units.

The most typical interpretational mistake, or what is more serious problem - inaccuracy in practice, is the merge of market orientation with customer orientation. It's not adequate to consider markets as sum of customer demand in marketing, but it is advisable to see them as complex systems with many players.

## **II. Customer-, market- and marketing orientation**

Market orientation as a theoretical concept has been emerged in the early 1990s in Marketing Science Institute (Cambridge/Massachusetts). Several significant studies (Kohli – Jaworski 1990, Narver – Slater 1990) were published and discussed. According to Kohli and Jaworski (1990) market orientation consist of the following elements: intelligence generation, dissemination and responsiveness. Market orientation was operationalized with 32 items in four dimensions such as *intelligence generation, intelligence dissemination, response design, response implementation*. They designed the MARKOR scale, which measures market orientation.

Narver and Slater (1990) defined market orientation as corporate culture contributing to creating higher customer value. They distinguished three factors: customer orientation, competitor orientation and coordination (between them). The basis of market orientation is the knowledge of customer needs and requirements and our strength and weaknesses; the satisfaction of customer needs and requirements, monitoring of our competitors and differentiation of our products and services through positioning. The third factor refers to the such specialty of marketing function that its success is basically influenced by how it can cooperate with other functions of the firm such as HRM, production, logistics. According to their view *market orientation is the coordinated utilization of interfunctional resources in order to create higher customer value*. Market orientation contains three behavioural components (customer, competitor and interfunctional direction), plus two decision criteria (long term perspective and profitability). The 15 items they used can describe only the most important factors of market orientation. This approach is constructed on the basis of “magic triangle of marketing”: own company, customer and competitor plus positioning and comparative competitive advantages.

The multiplayer nature of today's markets apparently question the dominance of customer orientation. A product or service tailored to customer requirements does not mean success in the market because of the saturation of markets, and the increasing competition. Cooperation with the marketing channel is a precondition of market success, too.

Market orientation is not only focusing on actual customers but also each market players having direct or indirect effect on our company. Concentration on stakeholders have essential role in market orientation. Thereby it is a multidimensional concept and practice.

Customer orientation – opposite to market orientation – is a dual relationship between customer and seller. The essence of customer orientation is the satisfaction of the actual and potential customer needs and requirements. It is not about full competitiveness albeit it helps to be successful in the market.

In the literature we may find three different interpretations of customer orientation:

- *Information oriented interpretation:* It's about marketing research on current and future customer needs and requirements, building up databases and data mining to back up decisions. The degree of customer orientation can be measured by the existence or nonexistence of Marketing Information System, its utilization and CRM.
- *Culture and philosophy oriented interpretation:* According to this view it is not enough to have the information oriented interpretation, but we must reshape the corporate culture. Norms, values and beliefs must be customer oriented. Moreover corporate behaviour (the acts of our employees) must be customer centered, which is a task of internal marketing.
- *Performance and interaction interpretation:* in this case customer orientation is about performances and customer interactions, i.e. defining product and service quality level. Customer oriented behaviour is manifesting in satisfying customer expectations in a flexible, tailor-made style. The main difference in this interpretation is that it is consider customer value from the customer's perspective and the emphasis is on perceived quality, customer complaint management and customer satisfaction.

Modern customer orientation involves all the three interpretation.

Marketing orientation as the focus of marketing activities has always been changing in the last decades due to the change in the nature of competition. The staging of changes in marketing orientation is interpreted in many ways in the literature. According to Kotler and Keller (2006, p. 50) there are four stages as production-, product-, sales and holistic marketing concept where marketing concept is considered as customer orientation. Holistic marketing concept is interpreted as a special mix of internal marketing, integrated marketing, social responsible marketing and relationship marketing.

Meffert (2000) stressed production oriented corporate focus as the first stage, then customer orientation concentrating on the final customer as the second stage, then environment and competitor orientation as the third stage and networks as the last stage. These are the focus points of marketing for being successful in the market. Bruhn's (2007) classification – like Meffert's one – distinguish product, market, customer and network oriented stages in every ten years.

Marketing orientation inside the company means collecting and flowing market information (customers, competitors, technology, etc.) and responding to market information (targeting, manufacturing products, providing services, channel decisions and SP). According to my researches the different market orientations exist in the same time and the environment (the nature of competition) and the core competencies determine which is more dominant in the case of a given company. If a market is not saturated, it is enough to sell efficiently. In saturated markets it is a must to concentrate on customer needs and requirements. In most markets where distribution is concentrated trade oriented marketing is essential. With the growing number of competitors, in intense competition it is of utmost importance to concentrate on competitors and our distinctive competencies. In many markets, it is advisable to focus on new advantages such as environmental consciousness and social responsibility. Reformulated user-, or better to say customer-orientation, long lasting customer relationship marketing has been placed in the centre of attention due to technological opportunities in the 1990s. Relationship marketing based approach often goes beyond its "key account" phase to turn into and complete in network marketing. It means marketing of networks: long term

market relations, co-operations, partnerships including customers, suppliers and even competitors.

The more advanced stage we are in, the more complex situation we must handle, and the more complicated and sophisticated marketing activity we need. Therefore the complexity of marketing orientation is growing with advancing stages. Nowadays there is no company to neglect to involve the above mentioned orientations into its marketing strategy.

### III. The “pink” self-audit of customer orientation

For the correct decision making, corporate management need to audit their marketing activity to find out how customer oriented their firm is benchmarked to their competitors. In order to do so it is essential to design a scale that is suitable for measuring market orientation. It must be complex enough to indicate market orientation in quantitative form. Thereby it is possible to benchmark companies and to see time-trends. *According to national and international surveys there is a significant non-compliance between the planned and realized, and even the perceived customer orientation.* One possible reason is that corporate management is often evaluate the performance of the company better than it is. The customer orientation is weak and in danger when:

- there is no competitive advantage
- the transformation of theoretical competitive advantage into real competitive advantage is only partially realized
- there is no market- and marketing concept
- there is no proper knowledge of competitors
- there is no conscious behaviour in the competition
- there is no time for the management to deal with strategic issues due to difficulties in the daily routine
- creativity is missing
- there is no knowledge of customer preferences
- there is no knowledge of customer’s decision making process
- there is no knowledge of situational factors in the buying process
- there is no complex thinking
- customers are not asked and/or listened to
- customer satisfaction is not measured
- nobody knows about customer’s opinion

Behind the above mentioned failures the missing of customer oriented marketing-management can be found:

- only some components of customer orientation are optimized without considering their relations
- the measurement of customer satisfaction and loyalty is conceptually and methodologically weak
- Customer satisfaction is sometimes thought to be customer loyalty
- Concentration on operative factors is quite frequent.
- Soft skills like cultural or personal factors are often neglected in surveys

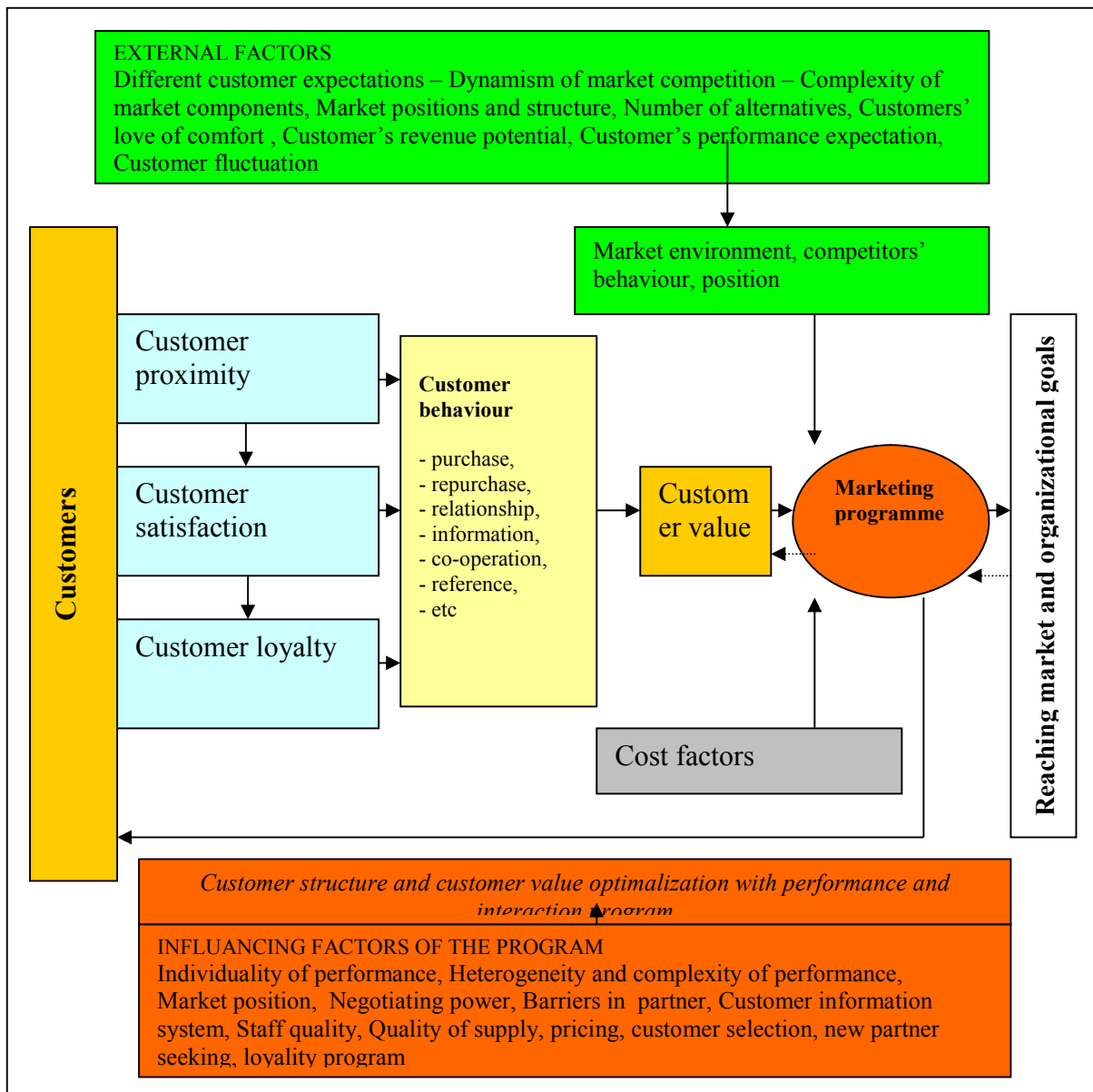
- There is no conscious efforts for customer selection, i.e. differentiated handling of customers

#### **IV. Reformulated model of customer orientation**

Customer orientation must embrace the full marketing process i.e. the market performance. Relationship marketing thereby can be the basis of the new approach to reformulate customer orientation. So customer orientation shall be a determiner of business success at strategic and operative level.

The main elements of the reformulated model:

- The main objective of marketing program is to increase the value of our customers and to utilize resources efficiently
- The focus of marketing program is the realization of performance (supply) and interaction program, which is providing individual customer value (comparative competitive advantage tailored to customer's preferences)
- Customer orientation must be realized in the performance and interaction program
- Customer proximity, customer satisfaction and customer binding management are the key elements of the new model
- Customer satisfaction and loyalty due to the performance and interaction program determines the customer behaviour related to our company to a great extent. Purchase decisions and cooperation is seriously influenced by customer satisfaction and loyalty. Therefore they have direct impact on the customer value from financial and market point of view as well.
- The customer value realized determines the optimalization of marketing program.
- Optimalization program is influenced by external environmental factors, behaviour of market actors, cost factors (for the realization of the program) and the objectives.



**Table 1 - Reformulated model of customer orientation** (ed. Piskoti and Nagy based on Krafft 2007., Bruhn 2007.)

In this model the realization of customer orientation is formulated, which is focusing on building efficient customer relations and maximizing customer value, and thereby suitable for reaching objectives and increase business success. The realization of this model must be built in the marketing management process in a firm. In customer oriented marketing management the different interpretations of customer orientation can be seen. In the analysis and monitoring phase information interpretation is required, in the program-design phase the performance and interaction approach while in the internal marketing and in the realization conditions cultural interpretation is needed.

In this interpretation customer value has two dimensions such as market potential and resource potential.

Market potential is the customer's contribution to actual and future sales

- Revenue potential (monetary contribution to success, profit-earning capacity in which a shift from turnover orientation to break-even orientation should be made. Information system should be activity-based costing oriented.)
- Loyalty potential (upgrading and improving customer satisfaction analysis whose elements are satisfaction, binding, confidence and dependence)
- Development potential (expectation about future, life-cycle and relationship life-cycle)
- cross-buying potential (like cross-selling, increasing customer value by widening the palette)

Resource potential (customer value as property, object of investment)

- reference potential (influencer of other decisions, multiplication effect)
- information potential (influence by data, information related to e.g. needs, innovation, etc)
- innovation potential (in the field of developments)
- co-operation (integration) potential (in the field of distribution, capacities, abilities, etc)
- synergy potential (external and internal connections)

Based on this model we managed to design scales and other instruments to measure customer value in our surveys at Marketing Institute, University of Miskolc, Hungary. We did not consider each factor equally important, because they are not equally important for the firms since they contribute to business success differently. Customer assessment focusing on market objectives is increasing the practical benefits, since customers might have different values in different market situations. When we have financial problems one customer might be very important, while other's importance is growing when we would like to increase R&D. Situations like pressure for innovation or stagnation, problems with liquidity determine priorities when one factor can be absolute determinant, so the most valuable customer will be the one that fully meet expectations.

Customer value can be calculated as the weighted average of each potential factor :

$$V_c = \sum C_i \times T_i$$

In this formula the firm's actual market objectives are the determinant of importance weights.

## **V. Advantages and limitations of the model**

Our surveys show that customer orientation must be involved in a conscious marketing strategy to be successful. Customer orientation means not only maximizing customer value but also providing a complex program based on relationship marketing. Reformulated customer orientation is thereby able to contribute to build effective CRM systems, and there is no perfect CRM system without customer orientation.



The advantages of relationship and customer value oriented marketing management are as follows:

- Customer acquisition cost will go down due to more efficient marketing campaigns and customer relationship management.
- Customer potential and value can be increased suited to market environment.
- Up-selling and cross-selling will be more frequent and easier.
- Customer satisfaction will be higher due to the tailor-made solutions.

The reformulated customer oriented approach and CRM have reason for existence where customer care is very important, customers can be categorized and the relationship is continuous.

This model has some limitations as well. First, it is difficult to apply when a company has no marketing strategy and/or we have no knowledge of the external factors. It is also hard to apply when customers are not willing to participate in the survey.

All things considered, we think this model can be easily and efficiently utilized when measuring customer value, marketing-, market- and customer orientation.

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