

Implementation of Market Orientation in Small Sized Company: Case Study on a Japanese Apparel Manufacturer

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Abstract. This is the case study of an Japanese apparel manufacturers aimed for revealing the process and important factors for the implementations of market orientation in small to medium sized companies. Although there is huge accumulation of studies for Market Orientation, most of them are focused on developing scales and variables of market orientation or analyzing relations between parameters quantitatively. So little effort has been paid for qualitative research with concrete case. Especially, there are few researches on market orientation implementation for small sized firms. The author highlights the important factors for Market Orientation of small sized companies. Those are (a) generation of market intelligence by itself, (b) response to customers' complex needs by multiple firms, (c) the capability for network coordination based on its market intelligence. In additions, this research indicates the concept of "Market Orientation" can be expanded to multi firms such as network. Prior researches basically supposed generation of market intelligence and the response to it by groups or organizations in a single firm.

Keywords: market orientation, small sized firm, network, apparel

1. BACK GOUND FOR THE RESEARCH

The researches about Market Orientation has made huge accumulation and extended into multiple areas such as marketing, new product development, organization learning and so on. However, most parts of them are not qualitative but quantitative research that authors endeavor to develop, to refine right scales and to testify the hypothesis. Hence, what seem to be lacking is the qualitative researches to reveal the process for realization of market orientation. Although many of researches in Market Orientation have clarified "what the market orientation is" through the quantitative methods, there are little researches in "how the market orientation can be realized" through the qualitative methods. Especially, the qualitative researches

in Market Orientation for small to medium sized companies are very rare. Nevertheless, the weaker the marketing function of the companies, the more they require strengthening Market Orientation. Therefore the qualitative researches about the process for realization of Market Orientation for small to medium sized companies are required from theorists and practitioners.

2 LITERATURE REVIEW

2.1 Market Orientation

The researches about market orientation have rapidly accumulated since the beginning of 1990's. In those works, researchers have conceptualized market orientation from the two perspectives [9]. One is the behavioral perspective (e.g., [14]) and the other is the cultural perspective e.g. [17]. Those have captured different aspects of market orientation.

Kohli and Jaworski [14] define market orientation as generation of market intelligence pertaining to current and future customer needs, dissemination of the intelligence across departments, and organization - wide responsiveness to it. Market intelligence is not only the information from customers about their needs and preference based on customer research but exogenous market factors (e.g., competition, regulation) that affect customer needs and preferences and current as well as future needs of customers [14]. The definition focuses on organizational activities related to the generation of, dissemination of and responsiveness to market intelligence.

On the other hand, Narver and Slater [17] assert market orientation is the organization culture that most effectively and efficiently creates the necessary behavior for the creation of superior value for buyers. This perspective concentrates on organizational norm and value that encourage behaviors that are consistent with market orientation. Furthermore, Narver and Slater [17] define the three behavioral components of market orientation such as customer orientation, competitor orientation, and interfunctional coordination.

Judging from the above, it is apparent that the cultural perspective also takes into consideration the behaviors related to market intelligence generation (e.g. customers and competitors), dissemination and responsiveness (e.g. interfunctional coordination). So we can understand market orientation as the behaviors based on organizational norm and value that encourage for the generation of, dissemination of and responsiveness to market intelligence.

2.2 Organizational Performance and Market Orientation

Many of Market Orientation researches have provided us with the results indicating positive relationship between market orientation and organization performance. For

example, [15] show that market orientation is important factor for organization's performance regardless of market turbulence, technological turbulence or competitive intensity. Narver and Slater [17] also find a substantial positive effect of market orientation on profitability of both commodity product and noncommodity businesses.

Many of empirical findings of the relationship between market orientation and performance have been produced since Narver and Slater [17] and [15]. However, the results of those studies exhibit variation regarding the direction of the relationship, antecedents and moderators. While early studies show the positive relationship between market orientation and organizational performance, several studies reported nonsignificant or limited association. For example, Bhuian [2] could not obtain significant relationship between market orientation and organizational performance from the research about the banks in Saudi Arabia.

In order to clarify the effect of market orientation on organizational performance, Kirca, Jayachandran and Bearden [13] made meta-analytic review for assessment of antecedents and impact of market orientation on performance. It would be safe to say that Kirca et al. [13] was one of the most comprehensive review works for market orientation so far in that the study was based on incompatible huge data base containing 418 effects from 130 independent samples reported 114 studies. The results show market orientation has positive effect on organizational performance such as overall business performance, profit, sales and market share. And furthermore, the study indicated significant association between market orientation with top management emphasis, interdepartmental connectedness and market-based reward system. And, in relation to the performance about customers, Kirca et al. [13] explain market orientation effect on the firm's innovativeness at the first stage, then the innovativeness stimulate both customer royalty and perceived quality of products /services at the second stage, finally, both royalty and perceived quality enhance the organizational performance.

2.3 Implementing market orientation

Despite a lot of studies have explained the relationship between market orientation and organizational performance, very few attempts have been made to reveal implementation of market orientation. Although many of market orientation studies have accumulated as mentioned, the most of efforts have devoted to operationalizing market orientation concepts, exploring moderators or investigating relationships between them through quantitative research methods. Those studies have huge contribution to the literature in that we could know what the market orientation was and what factors affected each other. However, those studies are relatively silent on the implementation of market orientation. In other words, we don't know the process of market orientation so much.

To date, only a few studies have examined implementation of market orientation. Danneels [6] made case study on apparel retailers, which showed how immoderate market orientation arose. Fashion trend is changing so rapidly that

apparel retailers are trying to understand and respond quickly to changing customer needs. Then, the customers satisfied give feedback to the retailers, and the retailers try to understand and serve to the customers again. As this cycle progresses, the strong relationships called “tight coupling” between the customers and retailers are built, which allow the retailers to sale their products effectively and efficiently. However, under the dynamic environments, the tight coupling has negative effects because the retailers are not motivated to explore potential customers. Hence, the organization that concentrates on the current customer too much could not survive for long time. Danneels [6] showed us the process of over dependence on current customers that should be avoided.

Kennedy, Goolsby and Arnould [12] made comparative case study on two major public school districts in order to reveal process for implementation of marketing orientation. As prior studies showed, Kennedy et al. [12] reconfirmed that senior leadership, interfunctional coordination, market intelligence were important for realization of market orientation. In that study, they provided the concrete data of how an organization implements market orientation by refining the roles of senior leadership, by arranging complex interlocking customer requests and re-coordinating functions, by internalizing and sharing the mission among organization members and by collecting and disseminating customer focused data.

Beverland and Lindgreen [1] conducted a comparative case study on two agricultural organizations to reveal how the organizations could implement market orientation. They indicated that marketers had to take political actions in the organization in order for the organization to implement market orientation. That is, even the marketers who lack formal power or influence to the organization members can implement market orientation through the political action such as coalition with key stakes holders and results of market research to convince members. This study showed us not only senior leadership but marketers play important role for implementation of market orientation.

2.4 Market Orientation in Small Sized Firms

Although research accumulation of market orientation in small firms [22] is much less compared to that in large firms, the empirical studies for small sized firms provided similar results with large firms’.

Pelham [4], based on the research for small to medium sized manufacturers in the U.S., showed the strongest positive relationships between market orientation and profitability among other factors such as industry characteristics, firm size and strategy selection. Especially for the organizations that intended to grow through differential strategy, market orientation played important role for high profitability. Also Kara, Spillan and DeShields Jr. [11] indicated the relationship between market orientation and organization performance in small sized service retailers in the U.S. In addition, Kara et al. [11] verified the robustness of MARKOR by using it in small service retailers. MARKOR is the scale for market orientation developed by Jaworski and Kohli [10] and Kohli, Jaworski and Kummur [15]. Although

MARKOR is not supposed to use only for large firms, Kara et al. [11] enhanced the usability of MARKOR through the adaptation for the sample made of only small sized firms.

Several studies concerned the relationships between market orientation and product innovativeness in small sized firms ([7]; [18]). Renko et al. [18] obtained the results that market orientation was not related to product innovativeness although capital investments in the company were related to market orientation with the sample made of young small biotechnology firms. Renko et al. [18] suggested the reason for the no relations between market orientation and innovativeness that disruptive innovation was difficult to born from market intelligence in technology turbulent environment and continuous innovation was mainly born in large firm. The results indicated the insufficiency of market intelligence generated mainly based on current customers in turbulent environment as prior studies have mentioned (e.g. [6]).

In summary, we can confirm the relationship between market orientation and organization performance in small sized firms. However, the relationship is not always confirmed especially in technology turbulent environment. In addition, those prior studies in market orientation for small size firm also tried developing scales and variables of market orientation or analyzing relations between parameters quantitatively as prior studies for large firms. We are not able to find proverbial qualitative studies in implementation of market orientation for small sized firms.

2.5 Market Intelligence in Small Firms

Frans and Meullenberg [7] is a good study to refer for market orientation of small sized firms even though the study did not directly have discussion about market orientation. The study is based on the case of small sized rose-growing-firms in the Netherlands. It analyzes the relationships of innovativeness of a firm, product innovation, organization performance, and market intelligence of external contacts, that is, small sized companies' suppliers and clients. The study showed that a small company's owner with low innovative idea would be stimulated by the market intelligence of external contacts, and then, highly innovative products would be produced, while an owner with high innovative idea would be negatively affected by the market intelligence of external contacts.

The important point to be noted here in this study is not the relationships of each parameter but the perspective of analyzing. That is, in this study, utilizing the characteristics of small companies based on prior studies, the effects by market orientation of external contacts on small companies' performance have been analyzed rather than market orientation of small companies themselves.

Based on prior studies, Frans and Meulenber [7] pointed out the characteristics of small firms as the followings.

- Small firms are nonbureaucratic and more flexible since the owner is decision maker [16].

- Information systems are relatively simple since the information is based on external contacts of the owner [19].
- various small firms operate in niche markets that are not served by large firms [3].
- Sometimes, small firms develop competencies in networks [4].

Since organization is small and the owner is nonbureaucratic in the case of small companies, coordination for internal departments might not be a big problem. In addition, responding to market intelligence seems to be easier compared to the larger organizations because of the firm size.

On the other hand, generation of market intelligence must be an issue when the small firm would like to have high degree of Market Orientation. If some organization is highly market oriented, it should generate market intelligence by itself [10]. However, based on Frans and Meullenberg [7], it is not special for small companies that the information on markets and technologies is obtained through external contacts due to insufficiency of information system of small firms. Likewise, market intelligence of external contacts might affect performance of small companies' business because small companies develop competencies in networks.

According to the logic above mentioned, it is useful to take notion of market intelligence for market orientation studies for small sized firms. So the case analysis in this study will be preceded mainly about market intelligence of a small firm.

2.6 Research Objectives

This research has two main objectives. One is the exploration for the process for the implementation of Market Orientation in small to medium sized companies. The other is the highlighting the important factors for realization of Market Orientation in small to medium sized companies.

Market orientation is what small firms require. Since small sized firms have fewer resources and fewer competitive advantages compared to large firms, they should search niche markets distinguished from ones for large firms, accommodate customers' needs and understand potential needs in the markets by implementing market orientation strategies. It seems the important way for small companies to keep their long term survival and growth. That is reason why the author investigates market orientation for small sized firm.

Through the above review section, we have seen that many researches had been achieved for market orientation and they had indicated that market orientation would have positive effects on organization performance. However, while most of the researches focused on developing scales and variables of market orientation or analyzing relations between parameters quantitatively, little effort has been paid for qualitative research with concrete case. Especially, there are few researches on market orientation implementation for small sized firms. Hence, the author try

exploring the process and highlighting the important factors for implementation of Market Orientation for small sized company.

3 METHODOLOGY

This research is based on a single case study analysis which is aimed at the analytical generalization of the findings [21]. The selected case is an apparel manufacturer in Japan. The reason why apparel manufacturing industry is chosen is that small sized firms are typical in the industry. According to the government statistics released in 2005, about 93.3% of apparel manufacturing firms have less than 50 employees.

The selected manufacturer is “241 CO.. (*Ni Yon Ichi in Japanese*)” located in Kurashiki city that is famous for denim products and the largest industry agglomeration of apparel manufacturers in Japan. Although 241 CO. has only 50 employees, it has strengthened the competitiveness by enhancing market orientation. The case data are mainly collected through semi structural interview investigations to the CEO.

This is rare case in two points. Firstly, 241 CO. keeps growing and being competitive despite most of others in the same agglomeration are losing their competitiveness. Secondly, 241 CO. succeeds in being Market Oriented while many of small to medium sized companies have difficulty to attain Market Orientation.

241 CO., established in 1994 by Eiichi FUJII, is a casual apparel products OEM (Original Equipment Manufacturer) that is contracted to produce other brands. It has about 120 customer firms including world famous super brands. The total sales are 1.24 billion yen / year. 241 CO. has moved into the limelight since 2005 as the finalist of “Who’s Next” that is one of the biggest apparel products exhibition in Europe. Only 5 out of 400 firms coming around the world can stay for final stage. Very famous apparel brands such as Calvin Kline and Nike were included as the competitors. 241 CO. was the only one finalist from Japan at that time. Recently, 241 CO. is expanding its business to ODM (Original Design Manufacturer) that is contracted to take responsibility from design to produce other brands. 241 CO. is growing as proposer of sophisticated original design to customers based on its market orientation. How it could be so? We are going to have preliminary findings in next section.

4 PRELIMINARY FINDINGS

4.1 Generating Market Intelligence by itself

241 CO. generates market intelligence through communicating with the customers by itself. FUJII ,CEO of 241 CO., has gone around the retailers for information

exchange, sales promotion and acquiring orders. Through that process, 241 CO. was generating market intelligence. It is not usual thing in Japanese market. Most of Japanese apparel manufacturers are small sized, and the companies that manage famous brands are the large sized apparel wholesalers. Therefore, the typical apparel manufacturers in Japan depend on wholesalers who collect and analyze market information and sell products instead of manufacturers, and manufacturers are specialized only for manufacturing.

4.2 Accepting “wide variety, small lot sized and short lead-time” orders

241 CO. has focused into the products that require small lot sized wide variety and short lead time because of two reasons. Firstly, it was a niche market far from the large sized firms. The large sized firms hesitate to accept such an orders since the products don't have enough volume to maintain the factories, employees and so on. Secondary, such orders usually give high margin although the volume is not so large. At the very early stage of *241 CO.*'s business, there were only a few employees, so that they didn't have to be so serious in the volume and care for the margins.

4.3 Switching Main Target

241 CO. has switched its main target from apparel wholesalers. The first one is the luxury boutiques that sell very unique and high price products. The second is the special retailers that mainly treat high value added products. The turning point came up two and a half years after the opening of the business. Some OEM products, 30 pairs of pants for each of 16 models, ordered from a small luxury boutique made smash hit. Luxury boutiques sold high quality product with high prices like 30 thousand yen for a pair of jeans. In addition, *241. CO.* kept the trading with apparel whole sellers. However the domain of its business is not for ordinal products but the prototype. The prototypes has very high margin and *241. CO.* can put its high level skills that is useful to appeal the originality and special skills.

4.4 Developing Market Intelligence

The acceptance for wide variety, small lot sized and short lead-time order developed the market intelligence of *241 CO.*. Though ordinal apparel manufacturers in Japan treat about 20 models/month, *241 CO.* does 200-300 models/month. That is, *241.CO.* could learn market trends better than ordinal firms that deal only a fewer models. Since CEO and designers in *241 CO.* could catch what was in fashion and what would be unique, they could propose sophisticated design to customer firms. Hence, *241 CO.* developed its ability and accumulated know-how for catching and anticipating market trends by treating incomparably wide variety of models, which could be understood as continuous market intelligence development.

4.5 Networking with Other Small Manufacturers

241 CO. utilizes the market intelligence by coordinating with other small manufacturers. *241 CO.* makes informal network with other small manufacturers in the same agglomeration in order to respond with customers' complex needs. Small sized companies have to cooperate with other companies since they don't have wide variety of resources to respond with every complex needs. In other words, *241.CO* is respond with market intelligence not organization-widely but network widely.

4.6 Coordinating Ability Based on "Know-Who"

One of core capabilities of *241 CO.* is coordination ability based on its market intelligence. Through the information exchange with network participants, *241 CO.* accumulates the knowledge about which company has what kind of ability and what kind of resources. Hence, *241 CO.* can coordinate the scattered abilities and resources in the network. Even if *241 CO.* has the superior market intelligence, network-widely respondent to the intelligence will be impossible without coordinating capability based on such a "Know-Who". It is difficult for outsiders of the agglomeration to know where the scattered resources are or who has the superior ability because small firms usually cannot have enough sales promotion by themselves. So the "Know-Who" would be understood as one of core capabilities to the competitor being outside of the agglomeration.

5 DISCUSSION

5.1 Interpretation from the Preliminary Findings

First of all, this case implicates how important for the small sized firms the market intelligence generation and accumulation by themselves are. As Frans and Meullenburg [7] pointed out and as the actual case was so, most of small firms dependent their market intelligence on supplier and customer firms. In such an environment, if a small firm strive to build its own market intelligence, the firm will have more chance to grow and survive compared to other small firms. This is the first step to implement market orientation for small firms.

Secondary, it is worth writing the business model that accepts wide variety of, small lot sized and short lead-time orders from various customers. As Kennedy [12] pointed out, under the turbulent market such as apparel industry, firms are often dependent on current customers too much. That situation makes the apparel firms less motivated to scan potential market needs. However, by accepting wide variety of models from various customers in short time, a small firm can avoid from overdependence of trade and information on only limited customers. In addition, such a business model makes a firm possible to develop its market intelligence because continuous information flows from various customers bring about

continuous interpretation of information from various sources. Therefore, accepting wide variety of, small lot sized and short lead-time order is useful for small firms to keep their market orientation and avoid overdependence on current customers.

Thirdly, one of meaningful lessons from this case is the importance of network perspective. As prior studies showed, it is not special that small firms develop their competencies in network [7]. In the case, sometimes small firms respond to market intelligence beyond organization boundaries and coordinate other small firms in order to satisfy complex needs of customers as 241.CO. are doing. Therefore, the concept of market orientation is required to expand from organization to network level. Prior studies in market orientation have been mainly assumed a single organization as the unit of analysis. However, if we would like to understand the market orientation for small firms, we should assume network as the unit of analysis and expand fundamental constructs such as generation of market intelligence, disseminations of and respond to it into network.

5.2 Potential Contributions to the Literature

If the author could say this study has some contribution to the literature, following three would be pointed out.

Firstly, the author provides concrete information about the process for realization of Market Orientation through the qualitative analysis.

Secondly, the author highlights the important factors for Market Orientation of small sized companies. Those are (a) generation of market intelligence by itself, (b) response to customers' complex needs by multiple firms, (c) the capability for network coordination based on its market intelligence.

Thirdly, this research indicates the concept of "Market Orientation" can be expanded to multi firms such as network. Prior researches basically supposed generation of market intelligence and the response to it by groups or organizations in a single firm.

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