

## **Strategic market orientations and profit opportunities: examining the role of product classification**

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### **ABSTRACT**

This study builds upon a perspective viewing marketing as an entrepreneurial function. It examines how a firm's marketing function identifies and exploits opportunities for profit. Strategic market orientations, it is suggested, focus the firm's attention on certain aspects of the firm's environment and thereby alert marketing entrepreneurs to profit opportunities. Successful identification, assessment, and exploitation of profit opportunities requires a firm to emphasize those orientations directing the firm's attention to the most dynamic environmental elements. Product classification is offered as a contingency factor by which to examine a firm's orientations and a set of research propositions link product class, strategic market orientation, and firm profitability. Future research examining the complementary nature of distinct strategic market orientations in marketing various product types can extend this research effort.

Keywords: strategic market orientations, marketing, entrepreneurship, product classification, profit opportunities

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## INTRODUCTION

Kirkpatrick (1983, 1985) has offered a theoretical foundation for the marketing discipline based on a functional view of entrepreneurship. Defining marketing as an applied discipline, he links the functional entrepreneurship approach of Austrian economics with strategic marketing. This paper, extending Kirkpatrick's viewpoint, considers how a firm's marketing function identifies, evaluates, and exploits profit opportunities. It is suggested that a firm's strategic market orientations alert marketers to opportunities by directing attention to the most relevant aspects of a firm's environment. Propositions are presented suggesting that product type, based on a traditional classification scheme from marketing's commodity school, is a relevant factor both in determining a firm's strategic orientation and in alerting the firm to profit opportunities in distinct competitive environments.

## MARKETING ENTREPRENEURSHIP

Functional approaches to entrepreneurship, including those grounded in the Austrian economics perspectives of von Mises (1949) and Kirzner (1973), view entrepreneurship as an essential firm function. Based on this perspective, Kirkpatrick (1983, 1985) argues that the marketing function in all firms and in all competitive environments is synonymous with entrepreneurship. He defines marketing as an applied discipline that aims to provide need-satisfying products to consumers through an ongoing entrepreneurial process of discovering, evaluating, and exploiting opportunities. In short, 'strategic marketers are entrepreneurs' (Kirkpatrick, 1983, p. 186). Alertness to opportunities (through environmental scanning and market research) allows a firm's marketing function to discover and evaluate opportunities for offering consumers value. The marketing function then exploits attractive opportunities through traditional marketing program elements, including product design, promotion (marketing communications), pricing, and distribution. Marketing managers, operating in markets with frequently changing consumer tastes and preferences, speculate concerning future marketplace conditions and facilitate exchanges by manipulating the marketing program. In many cases, modest changes in marketing program elements allow profit opportunities to be briefly exploited.

A weakness in this 'marketing is entrepreneurship' approach is its failure to offer a theory of how firms identify market opportunities. Earl (2003), addressing this limitation, suggests the entrepreneurial role involves construction of opportunities through mental connections. An entrepreneur creates the potential for profit opportunities by linking various elements of the firm's internal and external environments (product characteristics, consumer preferences, competitor activities, technological developments, etc.). These mental connections, which may also be considered firm-specific knowledge, place the firm in a position to notice things that could not otherwise be noticed. This partly explain why one entrepreneur can discover profit opportunities that others are unable to perceive. Based on Kirkpatrick's (1983, 1985) 'marketing is entrepreneurship' perspective, the role of the marketing function within a firm is to learn about the competitive environment, construct mental connections (develop firm-specific knowledge), and create (or exploit) profit opportunities ahead of the competition. This study proposes that the marketing function's starting point for discovering and exploiting profit opportunities lies with strategic market orientations. The classic market, sales, production, and product orientations guide a firm's marketing function in efforts to identify and take advantage of opportunities.

## STRATEGIC MARKET ORIENTATIONS AND ALERTNESS TO OPPORTUNITIES

Market, product, sales, and production concepts are the classic philosophical foundations of marketing decision making generally found in marketing textbooks. Strategic market orientation (also 'strategic orientation' or just 'orientation') is the term generally used when considering an overall pattern of business activities guided by one of these philosophies (e.g., Kohli & Jaworski, 1990). The market orientation, almost always presented as superior to other orientations, is 'the degree to which the business unit obtains and uses information from customers, develops a strategy which will meet customer needs, and implements that strategy by being responsive to customers' needs and wants' (Noble, Sinha, & Kumar, 2002). A product orientation, as the name implies, directs the firm to invest in creating and maintaining high quality products and technological leadership (e.g., Gatignon & Xuereb, 1997). It also emphasizes new ideas and new product development (Hult & Ketchen, 2001; Lukas & Ferrell, 2000). With a sales orientation, the focus is on aggressive marketing efforts, particularly promotion, and short-term sales maximization (Mullins & Walker, 2013). Acquiring and maintaining production and distribution efficiencies are the key emphases of a production orientation. The resulting cost minimization allows a firm to offer products to consumers at attractive prices (Marshall & Johnston, 2015). These orientations represent essentials of a firm's culture that direct the firm in its environmental interactions.

This study distinguishes between strategy content and the process of developing strategy. The classic orientations presented above are content orientations. Each describes a firm's pattern of deploying organizational resources. In contrast, process orientations describe strategic processes within an organization. Among the process orientations, it is the entrepreneurial orientation, often linked with entrepreneurship in small and mid-size businesses (e.g., Wiklund & Shepherd, 2003, 2005), that is most relevant when examining the marketing-entrepreneurship interface. This orientation refers to a pattern of firm practices and activities exhibited throughout the discovery-evaluation-exploitation process. From Kirkpatrick's (1983) perspective, the marketing function of every firm has an entrepreneurial orientation (to a greater or lesser degree). It has been claimed that firms with a strong entrepreneurial orientation, reflected by innovativeness, risk-taking, proactiveness, and other dimensions, are better able to identify and capitalize on emerging opportunities (Lumpkin & Dess, 1996; Wiklund, 1999). While some research has found a positive relationship between a firm's entrepreneurial orientation and firm performance (Wiklund & Shepherd, 2003, 2005), evidence suggests that the relationship is context specific (Frank, Kessler, & Fink, 2010; Rauch, Wiklund, Lumpkin, & Frese, 2009; Wiklund & Shepherd, 2005). An entrepreneurial orientation, to whatever degree it is found within a firm, may provide for improved efficiency and effectiveness in entrepreneurial activities. This is true whether the marketing function's content orientations guide it toward opportunities in the marketplace, production processes, product development, or selling efforts for existing products. In other words, an entrepreneurial orientation impacts the firm's activities as it seeks profit opportunities. This study recognizes the importance of an entrepreneurial orientation in capitalizing on profit opportunities. The focus, however, is only on content orientations that direct the firm toward those areas of the environment most likely to offer those opportunities.

A strategic market (content) orientation requires a firm to make choices in its efforts to acquire and utilize knowledge of the competitive environment. Values and beliefs implicit in an orientation require the firm's marketing function to seek and act upon knowledge related to

specific environmental factors. Firm-specific knowledge about markets, products, selling, or production processes allows the firm to identify opportunities and threats more accurately in those environments (Cohen & Levinthal, 1990; Holcombe, 1998). The result is a firm better able to perceive and exploit profit opportunities (Earl, 2003; Gupta & Govindarajan, 2000). Since knowledge-based resources are difficult to emulate (McEvily & Chakravarthy, 2002), each strategic market orientation provides the potential for competitive advantage by developing a marketing function consistently alert to opportunities for creating, offering, and delivering value to consumers (Peteraf, 1993). A market orientation, for example, directs the marketing function to develop close relations with existing customers, stimulates awareness of customer problems, and creates insights into how to better serve the marketplace. Product, sales, and production orientations move the firm to gather knowledge concerning other aspects of the environment and provide for greater alertness to profit opportunities in the areas of emphasis.

The four classic orientations have been examined extensively in both the marketing and strategic management literature. Much of this work, following conceptual frameworks suggested by Kohli and Jaworski (1990) and Narver and Slater (1990), has focused on the market orientation. For decades now, researchers have emphasized that firms in diverse environmental contexts can benefit from developing a market-oriented culture (e.g., Carillat, Jumillo, & Locander, 2004; Gao, 2017; Harris & Ogbonna, 2001). As Gao (2017, p. 49) notes, 'Since market orientation provides organizations with a better understanding of their customers, competitors, and environments, it becomes a significant antecedent of performance and is presumed to contribute to long-term success.' Despite the predominant focus on the market orientation, some studies suggest that the other classic orientations offer viable strategic options. Production, sales, and product orientations, generally presented as undesirable in marketing textbooks, have been found to be prevalent in some contexts (Berthon, Hulbert, & Pitt, 2004; Noble, Sinha, & Kumar, 2002). These studies suggest that no single orientation provides the lone pathway to superior performance outcomes. Depending upon context, any one of the classic orientations may lead to discovery and exploitation of opportunities, competitive advantage, and profitability.

An orientation is simply a degree of emphasis for firm activities (Kohli & Jaworski, 1990). With limited resources, capabilities, and time, firms must make tradeoffs among the activities associated with each orientation (Heiens, 2000). A firm cannot be oriented toward all things. The question facing each firm is where to seek opportunities. Answers to this question guide the firm to emphasize those orientations that stimulate learning, knowledge, and development of firm capabilities in areas of the environment where the firm believes opportunities are most likely to be found. DeMarais (1996) and Holcombe (1998) both claim that firms, as a result, will direct attention to the most dynamic aspects of the competitive environment. Despite its position of dominance in the literature, this suggests that the market orientation may not be desirable in many cases. If a market exhibits little dynamism, comprised primarily of passive consumers who pursue the 'best deal' among established competitors, a selling or production orientation may offer greater insight into profit opportunities. In other cases, with markets dominated by consumers preoccupied with high quality and innovation, a product orientation may be a better foundation for discovering and exploiting opportunities. This research seeks to advance this contingency approach to strategic orientations. The basic premise is that marketing decision makers, based upon their perceptions of the most relevant environments, choose where to seek opportunities. A firm's marketing function emphasizes the strategic market orientation (or possibly orientations) which focus attention on the more dynamic

aspects of the environment. In this paper, it is suggested that the product classification scheme of marketing's commodity school, with its categorization of products based primarily on consumer perceptions and behaviors, offers a promising framework by which contingent orientations can be explored.

## **CLASSIFICATION OF GOODS AND STRATEGIC MARKET ORIENTATIONS**

The commodity school of marketing thought is one of three traditional approaches to understanding marketing that emerged and developed in the first half of the 20<sup>th</sup> century. While the marketing functions school identifies and catalogs the work of marketing, and the institutional school identifies and catalogs those who do the work of marketing, the commodity school seeks to explain the types of goods existing in the marketplace and describes how those goods are marketed. Zinn and Johnson (1990, p. 346) claim, 'Classification schemes have always been at the heart of the commodity approach because they are of critical importance in establishing the differences among various types of commodities.' Copeland (1923, 1924) developed by far the most influential consumer goods classification scheme. Much of the work in this area is built on his original categorization, based on consumers' perceptions and actions, of convenience, shopping, and specialty goods (e.g., Aspinwall, 1958; Bucklin, 1963, 1976; Enis & Roering, 1980; Holbrook & Howard, 1977; Holton, 1958; Hyman, Sharma, & Krishnamurthy, 1995; Murphy & Enis, 1986). As Shaw and Jones (2005, p. 251) note, 'From the 1920s to the 1980s, Copeland's classification scheme produced one of the longest strings of conceptually building upon and improving an original idea, rather than abandoning a concept to the scrap heap of history or reinventing an old concept with a new name.' One testimony to the durability of Copeland's scheme is that it is still found in most marketing textbooks nearly a century after its first appearance in the literature (e.g., Kotler & Keller, 2016; Marshall & Johnston, 2015).

Following an extensive literature review of consumer goods classification schemes, most based on Copeland's (1923) work, Murphy and Enis (1986) suggested that almost all consumer goods classifications were based on two dimensions, consumer effort and consumer-perceived risk. Adopting and further developing the four-category scheme of convenience, shopping, specialty, and preference goods first proposed by Holbrook and Howard (1977), they offer a classification system intended to guide managers in formulating marketing strategy for all types of products. For consumers, convenience goods are low effort and low risk purchases. Preference goods require a bit more consumer effort and are perceived as significantly higher on the risk dimension. Shopping goods are higher than preference goods on both dimensions. Finally, specialty goods are highest in terms of both consumer effort and consumer-perceived risk. Marketers have a limited number of marketing program options with convenience goods, more options with preference goods, and a still greater number of program options with shopping goods. Marketing programs for specialty goods may be limited by the need to maintain absolute consumer loyalty to existing products. Murphy and Enis believe their classification is superior to previous classifications for four reasons: (1) it is consumer (or user) oriented; (2) it is generalizable, applying to consumer and industrial users, profit and non-profit marketing, and all product types (goods, services, and ideas); (3) it recognizes that consumers consider benefit-cost relationships when making purchase decisions; and (4) it builds on the work of Copeland and others, thus using familiar terminology. Despite these claims, as well as the enduring acceptance of consumer goods classification, critics have pointed to weaknesses in all existing approaches

and suggested that product classification is not helpful in guiding strategic and managerial decision making.

Critics of the commodity school and product classification schemes have generally focused on two perceived problems with the school's approach to marketing. First, some have claimed that Copeland's (1923) classification, as well as its extensions, reflect only an early 20<sup>th</sup> century perspective on markets and consumer behavior (Avlontis, 2000; Mason, 2005). In directing attention to utilitarian consumers and failing to incorporate consumer emphases on style, status, and other social characteristics of products, Mason (2005) declares product classification theory to be dated and to have little or no relevance to marketing in a late twentieth or early twenty-first century marketplace. He fails to acknowledge, however, that many extensions of Copeland's model consider social characteristics of products to be highly relevant in determining consumer perceptions of the risk and effort involved in a product purchase (e.g., Enis & Roering, 1980; Holbrook & Howard, 1977; Murphy & Enis, 1986). In fact, Murphy and Enis claim that social characteristics, often in the form of reference group influences, are a key factor in differentiating among product categories. Powers (2012, p. 192), in contrast to Mason, believes that the commodity school approach is relevant to the study of a modern electronic marketplace and 'can provide useful guidelines on the extent that the various categories of goods will be searched for and purchased online.' A second common criticism of the commodity school revolves around the school's efforts to develop a 'cookbook' for marketing strategy. Winzar (1992) claims that these attempts have not been successful. He further suggests that 'classifications are the outcome, rather than the input, of strategy' (p. 264). While it is true that product classifications may be unable to guide specific marketing program decisions, it is also true that a firm's marketing function, if it is to be alert to profit opportunities, must direct attention to the most dynamic elements of the competitive environment. Given a unique competitive environment for each product class, it is likely that product classification is a contingency factor impacting strategic market orientations.

## **PROPOSITIONS CONCERNING PRODUCT CLASSIFICATION AND STRATEGIC MARKETING ORIENTATION**

The commodity school and its classification of goods schemes can provide (1) guidelines on the extent to which various strategic market orientations will be emphasized by firms and, (2) insights into the performance link between product classification and strategic market orientation. The propositions presented below are based on the belief that a firm is likely to orient itself and achieve superior performance outcomes by directing attention to those aspects of the competitive environment most relevant for the type of product it primarily markets.

Copeland (1923), as well as others who have adopted and extended his classification scheme (e.g., Enis & Roering, 1980; Holbrook & Howard, 1977; Murphy & Enis, 1986), indicates that consumers have what they believe to be complete knowledge concerning the nature of convenience goods. The result is that consumers perceive little risk in making selections and are not willing to spend time and energy (effort) in purchasing a particular product (Murphy & Enis, 1986). For consumers, these are habitually purchased goods or 'automatic' reorders. Many grocery staples are commonly identified as falling in this category, as are industrial supplies and raw materials considered to be commodities. Since marketers are often unable to move these goods to another category, Murphy and Enis believe that strategic efforts are likely to focus on cost minimization and operations. These are the dynamic aspects of the environment for

convenience goods marketers. If profit opportunities are to be discovered and exploited, those opportunities are likely to be found by a strategic market orientation focusing the firm's attention on production and distribution. Therefore:

P1: The production orientation will be stronger for firms primarily marketing convenience goods than for firms primarily marketing preference, shopping, or specialty goods.

A popular stream of commodity school research in the 1970s and 1980s added a preference goods category to Copeland's (1923) three product classification scheme (Enis & Roering, 1980; Holbrook & Howard, 1977; Murphy & Enis, 1986). When compared with convenience goods, preference goods are defined by moderately higher levels of consumer effort and considerably higher levels of consumer perceived risk (Murphy & Enis, 1986). These are goods that marketers have been able to differentiate from competitive offerings, mainly through promotional activities. In many cases, firms 'have been successful in convincing consumers that their brands of low-priced products convey greater benefits ... than competing ones' (Murphy & Enis, 1986, p. 26). Applying this logic to a firm's strategic market orientation, the focal point for firm strategies is to generate sales through use of aggressive promotion and pricing (e.g., global competition between Coke and Pepsi) in efforts to create and sustain short-term competitive advantages. The selling environment, rather than marketplace, production, or product environments, is most dynamic. Profit opportunities come from winning 'battles' in what has often been described as 'marketing warfare' (e.g., Kolar & Toporisc, 2007; Kotler & Singh, 1981; Rindfleisch, 1996). Therefore:

P2: The sales orientation will be stronger for firms primarily marketing preference goods than for firms primarily marketing convenience, shopping, or specialty goods.

Shopping goods are higher than convenience and preference goods in terms of both effort and risk (Murphy & Enis, 1986). In order to make the best purchase, consumers are willing to make extensive comparisons. Examples of shopping goods include automobiles, video games, athletic shoes, furniture, and industrial components. These products often require marketers to utilize a wide variety of alternative marketing mixes (Murphy & Enis, 1986; Shaw & Jones, 2005). Marketing strategy for shopping goods revolves around understanding the marketplace and developing market segmentation strategies (Murphy & Enis, 1986). In short, successful shopping goods marketing is all about finding profit opportunities by focusing attention on dynamic markets comprised of current and potential customers. Therefore:

P3: The market orientation will be stronger for firms primarily marketing shopping goods than for firms primarily marketing convenience, preference, or specialty goods.

Murphy and Enis (1986) indicate that specialty goods are highest among the four categories on both consumer effort and consumer perceived risk dimensions. Copeland (1924, p. 14) labelled these products 'special' because they are 'those which have some attraction for the consumer, other than price, which induces him to put forth special effort' in making a purchase. Examples include luxury automobiles, smart phones, fine watches, and famous artwork. In purchasing these products, consumers see no need for product comparisons and accept only a specific (often branded) product. Product differentiation, customization, and design innovation form the basis of marketing strategy for specialty products (Enis & Roering, 1980; Murphy & Enis, 1986). Non-product elements of the marketing program, particularly promotion, center on reinforcing buyer loyalty to the specialty good. It is the product environment that is highly dynamic, and opportunities for profit come from discovering and exploiting ways to improve the

product itself (or consumer perceptions of the product) and communicate those improvements to the market. Therefore:

P4: The product orientation will be stronger for firms primarily marketing specialty goods than for firms primarily marketing convenience, preference, or shopping goods.

These propositions do not suggest that a firm cannot be strongly oriented toward more than one aspect of its competitive environment. Zhang and Zhu (2016), for instance, find that an exporter's market orientation can strengthen its innovation (product) orientation and thereby improve business performance. It is suggested, however, that each of the four strategic market orientations is likely to be strongest for one class of product. The key here is the level of dynamism found in a firm's production, selling, market, and product environments. Product classification is offered as a factor in determining a firm's orientation since marketing strategies for each product type must focus on addressing the challenges of a particular competitive environment. As Holcombe (1998) indicates, a focus on the most dynamic environment offers a firm the greatest potential for discovery and exploitation of profit opportunities.

Literature examining strategic market orientations, as discussed previously, has generally suggested that a market orientation leads to superior performance. The above propositions, however, imply that for some product classes, other orientations are more likely to guide a firm to discovery and exploitation of profit opportunities. A production orientation, for example, is strongest for a firm marketing convenience goods because the firm's marketing strategists believe that the production and operations aspects of the environment are most dynamic for those products. Orienting the marketing function toward the most dynamic environmental elements heightens the firm's alertness to profit opportunities. Given this link between orientation and performance, the following propositions are offered:

P5: The production orientation – performance link will be stronger for firms primarily marketing convenience goods than for firms primarily marketing preference, shopping, or specialty goods.

P6: The sales orientation – performance link will be stronger for firms primarily marketing preference goods than for firms primarily marketing preference, shopping, or specialty goods.

P7: The market orientation – performance link will be stronger for firms primarily marketing shopping goods than for firms primarily marketing convenience, preference, or specialty goods.

P8: The product orientation – performance link will be stronger for firms primarily marketing specialty goods than for firms primarily marketing convenience, preference, or shopping goods.

## CONCLUSION

This paper, building upon Kirkpatrick's (1983) 'marketing as entrepreneurship' perspective, suggests that a firm's marketing function develops and maintains alertness to profit opportunities through strategic market orientations. The classic product classification scheme first presented by Copeland (1923) and later expanded by Murphy and Enis (1986) is offered as a framework by which firms' contingent orientations can be explored. Research propositions suggest that a firm's strategic market orientations, significantly impacted by the type of product it primarily offers to the marketplace, direct the firm toward opportunities in certain aspects of a firm's competitive environment.

Although the superiority of a market orientation has long been the orthodox view presented in marketing texts, this study builds on contingency perspectives offered by Demarais (1996), Fritz (1996), and Wong and Saunders (1993). These authors suggest that other classic marketing orientations can lead firms to successful performance in certain contexts. Some researchers have proposed market maturity (or life cycle stage) as one contingency factor impacting both the strength of a firm's strategic market orientations (Demarais, 1996; Gray & Wert-Gray, 2015) and the relationship between orientation and firm performance (Gray & Wert-Gray, 2012). The underlying rationale behind contingent orientations is that some elements of a firm's environment are more dynamic than others and the firm, if it is to be successful in capitalizing on profit opportunities, must orient toward the more dynamic aspects of its environment. In this study, it is proposed that the dynamism of a firm's environments varies based on the type of products it offers to the marketplace. As a result, the strength of a firm's strategic market orientations will vary based upon classification of its products. In addition, it is proposed that the links between strategic market orientations and performance outcomes will be strongest when a firm is oriented toward the most dynamic elements of its environment.

One goal of this research is to revitalize the product classification approach of marketing's commodity school. As Murphy and Enis (1986, p. 37) note, product classification schemes 'are useful in summarizing existing knowledge and in providing directions for further investigation.' A sound product classification scheme thus promotes marketing theory development and productive research programs. Research in marketing and other fields has concluded that classification also benefits both pedagogy and practice because people naturally classify or catalog objects in their environment (Hyman et al., 1995; Rosch & Mervis, 1975; Stubbart, 1989). In other words, product (and other) classifications 'match the ways that people think' (Hyman et al., 1995, p. 15). This is likely a key reason that Copeland's (1923) classification approach, with modest modification, is still presented in twenty-first century marketing textbooks. While product classification alone may not provide a single 'marketing management and strategy cookbook,' classification may guide firms toward the better 'cookbooks' or 'recipes,' those guiding a firm toward environments where opportunities are likely to be found.

Testing the above propositions presents challenges. First, approaches to conceptualization and measurement of strategic orientations vary considerably in both marketing and business policy research (e.g., Henderson, 1998). Second, the product classification scheme presented by Murphy and Enis (1986) is dependent upon consumer perceptions of risk and effort. As a result, classification often varies based on context (Sheth, Gardner, & Garrett, 1988; Winzar, 1992). Both challenges revolve around the question of subjective versus objective assessment of both strategic market orientations and product classifications. Addressing these challenges may require diverse research perspectives and replication of efforts if consensus is to be reached in terms of research outcomes.

Pending results of future empirical study, support for the presented propositions suggests that product classification is a relevant factor in guiding a firm toward strategic market orientations and profit opportunities. Examining the potential for complementary relationships among the four classic strategic market orientations and compatibility of these orientations with an internal (process) entrepreneurial orientation are possible avenues for future research. Although firms are required to make tradeoffs in emphasizing orientations, Berthon, Hulbert, and Pitt (2004) provide evidence that some firms exhibit multiple strong orientations. Research examining the possibility of complementary strategic market orientations in marketing various

product classes could bring insight into the processes by which firms respond to resource and capability constraints. Prior research suggests that an entrepreneurial orientation within a firm is positively related to firm performance (e.g., Wiklund & Shepherd, 2005). Research examining compatibility between this process orientation and a firm's content orientations could aid in better understanding the contingent nature of content orientations and the strategic fit between a firm's internal processes and market orientations.

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