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Ouverture de 'Market-Driven Management and Competitive Customer Value – 1'

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Abstract

The globalisation of the market generates unprecedented over-supply well in excess of the market potential. This oversupply thus becomes a structural factor of development. In open markets, global competition has set new rules (manufacturing delocalisation, global distribution players, competitive imitation, instable and non-loyal consumption) which have significantly scaled down the model of economic development based on the isolated small and medium sized enterprise without global networking relations. Instead they emphasise the importance of a robust national development policy based on the 'identity of the industrial system', in other words on precise 'intangible macro-system factors'.

Keywords: Market-Driven Management; Global Competition; Global Networking; Over-Supply; Competitive Customer Value

1. Overture

The globalisation of the market generates unprecedented over-supply well in excess of the market potential. This oversupply thus becomes a structural factor of development, which obliges business to come to terms with: development policies characterised by irregular growth rates, instable demand and above all changing growth potential.

Global over-supplied markets stimulate business to adopt a new market-oriented management approach (market-driven management), characterised by: continuous comparison with competitors, with increasingly sophisticated products made rapidly obsolete by easy imitability at decreasing costs; indistinct competition borders; a high rate of substitution among products, with the creation of instable aggregates of customers (demand bubble); planetary inter-relations of competitors, developed by transnational networks that go beyond multinational (or multi-domestic) organisations; and finally the transformation of domestic markets into

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complex socio-economic systems, in which nation-states compete with supranational organisms.

> □ *'A few years ago, Spanish trawlers frequently hunted for swordfish in an area of the Southeastern Pacific that borders with an economic area of exclusive interest to Chile. The Chilean government, fearing this would deplete the fish stocks in the southern Pacific, forbade the fleet of Spanish trawlers to use Chilean ports…Urged by Spain, the European Union rebuked Chile for violating the rules of GATT and later the WTO. And Chile, in turn, appealed to the Tribunal for the Law of the Sea…The result was a legal tangle.' (see Sergio Romano, Saranno i giudici a governare la terra, Corriere della Sera, July 18, 2009).*

In over-supplied global markets manufacturing and distribution companies with strong 'market-driven' policies therefore develop, in which marketing creates ever-new 'bubbles' of purchasers, to be sustained with very volatile supplies and products with a strong identity. On the other hand, with the success of market-driven management policies, the primacy of marketing, which was a feature of markets with balanced demand and supply (a stage that ended in the late 1980s, when the stability of final demand also ended), was replaced by the predominance of communications and intangible corporate and product resources, to manage highly instable situations dominated by competition, where intermediate demand and global trade played a central role.

Globalisation, in particular, modifies corporate organisation and the role of strategic alliances, imposing collaborative network strategies between groups of companies and promoting numerous forms of competitive cooperation. Competitive relationships thus tend to interweave increasingly with 'closed' collaboration and cooperation relationships, in order to control competitive dynamics, at least in part, with ever-larger companies and a global market vision.

> □ *'Since the beginning of the century, the structure of organisations has undergone a radical transformation… We have gone from a 'castle' to a 'network' organisation. The spread of outsourcing and the success of network structures to control the chain of value have resulted in a transformation from a culture of possession to one of control.' (see Alberto F. De Toni, Luca Comello, Viaggio nella complessità, Marsilio, Venice, 2007, p. 63).*

Moreover, market-space competition emphasises the critical nature of very short-term vision and profitability (to be achieved by Brand Reengineering and Competitive Pricing, for example) and highlights the priority of the continuous supply innovation, which rewards management oriented to knowledge of the market and the creation of competitive customer value.

In global markets (and above all in oversupplied markets), the success of corporate strategies depends on the competitive relationships that a business establishes and the capacity to learn new and original *frontiers of value* from the market. A system of networking that strives for collaboration between internal,

external and co-makership organisations, underlines the critical nature of a corporate information system based on new digital technologies, designed to instil value into relations with the intermediate and end customer, to generate competitive customer value advantages.

2. Global Markets, Brand Policy and Market-Driven Management

Over-supply and global markets exacerbate the slump in consumption and impose new competition rules for brand products. A few years ago, when primary demand for goods was rising, a brand was enough to spread a product and advertising expenditure guaranteed its success. Advertising share of voice was related and basically equal to market share, and leading brands with large budgets were untouchable. No longer.

Globalisation determines a growing manufacturing over-capacity, which highlights the *'strong brands'* (with a high rotation index of brand sales) and puts *'weak brands'* (with low brand and product rotation indices) out of the market. In this sense, Chevrolet has eliminated the Daewoo brand name from its Korean car output, superimposing the technological superiority of the global US brand on the popularity of models with a formidable quality/price ratio.

In global markets, brand heritage thus becomes a primary intangible resource, used to accelerate sales in a market-driven operation and with falling demand (as the great corporations, from Coca-Cola to PepsiCo, GE, Microsoft, Toyota, Ford, etc., have shown).

On the other hand, in the closed situations and 'castle economy' of protectionism and monopolies, the larger firms escape the global market, over supply and the slump in consumption, by investing in monopolistic activities without a brand (energy, telecommunications, non-innovative pharmaceuticals, etc). Other businesses that are forced to compete in the global market, must support vital competition performance (market share, profitability, attractiveness) with recourse to *'dwarf brands'*, based on the firm's strength alone, without the support of intangible resources of the country system and actually 'held back' by deficient structures and archaic infrastructure.

> □ *'When we consider the origins of the process, there have been at least two ages of globalisation. Some historians argue that the true first phase came in the 19th and early 20th centuries, until ended by the First World War. They point to the massive waves of migration, with 40 million Europeans moving to north America, and millions more to south America and Australia, to the way that by 1914 Britain was routinely exporting capital equivalent to 9 per cent of its GDP…That period might well be called Globalisation 1.0…The long hiatus in globalisation lasted until 1944, when British and American allies planned the post-war economy. In the three-week-long conference at Bretton Woods, they dreamed up Globalisation 2.0, the institutions that would revive, manage and foster world trade…from the World Bank and International Monetary Fund to the OECD and the GATT, that was*

the forerunner of the WTO…But now all that has changed. The West no longer dominates the world's savings, and the global investment and finance…This is the new era, and we might as well call it Globalisation 3.0. It is the time when the West can no longer set the rules for world trade…If we can identify a single moment when the Western-dominated Globalisation 2.0 gave way to Globalisation 3.0, it may have been China's accession to WTO membership in 2001…There is now, the new era of Globalisation 3.0, an alternative to the Washington Consensus of free markets and free institutions. It has been described as the Beijing model of state ownership, state led industrial strategy, currency controls and authoritarian politics…Its attraction lies in its crude message that countries can prosper and grow without any bothersome democratic baggage such as a free press or free elections, and it includes breathtaking levels of corruption and a docile judicial system.' (see Martin Walker, Globalisation 3.0. Prospects for a New World Order, Wilson Quarterly, passim, Autumn 2007).

3. Over-Supply, Consumption and Purchasing Loyalty

The current collapse of consumption, unbridled for several years, has radically changed spending behaviour, reducing purchases of cars, foodstuffs, clothing, books and toys. The contraction of consumption is particular widespread (even affecting scooters, fuel and entertainment) and short-term forecasts are for spending to remain uncertain for some time.

However, if we look more closely, we can see that a number of important spending areas are bucking the trend, and sales of telecommunications equipment (subscriptions to pay television, the Internet, etc.) are holding up; in particular, there is an increase in sales of products with technology traded in Dollars, such as chemical detergents, cell phones, plasma and LCD colour televisions, personal computers, flash memories, digital cameras and videocameras, etc. Very briefly, sales of goods with a global market and a Euro/Dollar exchange that has been weak for many months, resulting in ever lower selling prices, continue to grow. But even this commodity class (greatly exploited by large distribution chains, with global imports) is reaching its saturation point (sales threshold), which will only be crossed with the help of strong innovation, or because of a new and serious collapse of the Euro/Dollar exchange.

On the other hand, when available income decreases, consumers select their purchases and points of sale, and there is a drastic increase in brand switching and non-loyalty of purchasing (fostered above all by private labels and promotional offers), many customer brackets abandon 'richer' products (product switching), and there is a general reduction in quantity purchased. The consumption crisis thus forces firms to adopt fiercely competitive behaviour, based on market-driven management, which favour consumption *fidelity* (more flexible and less expensive than purchasing *loyalty*) and *competitive pricing* policies, in which the price is fixed on the basis of the 'payback period'.

4. Brand Products, Over-Supply and 'Competitive Customer Value'

The recent crisis in consumption reveals radical changes in purchasing habits (of families and singles) and this, for the first time, is penalising numerous large brands. The reduction in available income is producing new spending behaviour, which underlines:

- the drastic increase in brand disloyalty (*brand switching*), with peaks of 60-70% of brand change inclination (as in the case of basic products like olive oil, tinned tomatoes, jams, etc.);
- the explosion of purchasing non-loyalty (and the resulting search for more advantageous points of sale and products, for example exploiting the private labels and promotional offers of retail chains);
- the postponement of non-essential purchases;
- the substitution of products (*product switching*), for example drinking beer instead of wine;
- and finally, a reduction in quantities purchased.

Oversupply and global markets exacerbate the collapse of consumption and impose new competitive rules for brand products. The globalisation of markets generates a growing manufacturing over-capacity and therefore a supply well in excess of potential demand absorption, which highlights the *'strong brands'* (i.e. those with a high brand rotation index), and at the same time it excludes *'weak brands'* (i.e. those with low brand rotation and product class indices) from the market. Moreover, in conditions of oversupply the spiral of the spending crisis is amplified by inadequate pricing policies. In global, highly competitive markets, price calculation demands a new logic, founded on 'time-based competition' (abandoning costs and demand, the 'classic' parameters of marketing manuals) and focused on continuous flows of digital communications, with constantly monitored results and rapid updating (market-space management). In a state of oversupply, only manufacturers and distributors with strong 'market-driven' policies, in which the brand is a *'system of responsibility'* in manufacturer-trade-consumer relations, will survive.

5. Competitive Customer Value Management: Small is Beautiful, but Large is Better

There was a time, not many years ago, in Europe and in Italy, when a 'chorus' of different voices preached to businesses that *'small is beautiful'*. The advantages of the small firm (*'an enviable feature of the Italian economy'* in the words of the prophets of *'small is beautiful'*) and the presumed superiority of local manufacturing districts and banks were underlined – even fairly recently, amazingly – by numerous supporters, that included politicians linked to banks that controlled territorial operations, industrialists with firms financed by public grants, some universities and leading research centres in the field of micro-enterprise trade,

but also journalists and sociologists who supported a political '*laissez aller*' approach.

In fact, global and oversupplied markets have radically changed the traditional nature of industrial production, made up of 'long' structures with a rigid division of roles, workers present in the manufacturing centres and a massive output of standardised products. 'Market-driven competition', on the other hand, highlights global economies of scale, connected to the 'intense sharing' of key resources in a system of networking, with sophisticated competitive collaborative relationships. This is why firms with niche products, which embody the *'small is beautiful'* principle, come up against growing difficulties in global economies. In fact the new competition is designed for firms in networks, with high managerial capabilities, capable of dominating communications, R&D of new products, marketing, controls and finance; small and medium sized Italian enterprises, on the other hand (and manufacturing districts to an even greater extent) are reduced increasingly to structures that manufacture under contract.

> □ *'The growth model of Italian businesses abroad seems to be consistent with the characteristics typical of Italian designer products and the country's fragmented industrial structure, which are reflected in a 'globality gap', particularly in reference to the new epicentre of the world economy, which has shifted inexorably to the Pacific.' (see Sergio Mariotti, Marco Mutinelli, Italia multinazionale 2006, ICE, Rome, 2008, p.19).*

Even the great design craftsmen are seeing the decline of their 'golden niches' (small production runs with high selling prices justified by their creativity) and of export opportunities encouraged by the exchange rate. One important example of this is the output of the so-called 'made in Italy' label of the past, which is being weakened on domestic and external markets because it relies on the creative thrust of manufacturing districts made up of micro-enterprises (textiles-clothing, silk, leather, footwear, jewellery, furniture, precision engineering, etc.), without a manufacturing and marketing 'global vision'. In other words, 'closed areas' comprising a handful of firms that are highly manpower intensive, individualistic and driven by imitation of their closest competitors ('production-driven management'). In other terms, firms with great structural weaknesses, balanced until the late 1980s by 'cyclical devaluations' of the Lira, which imposed price differentials – bordering on dumping – for vast supply sectors; they generated enormous selling waves of very different goods, all with high levels of craftsmanship and quality, which invaded foreign markets at irresistible prices (actually only the easiest areas, with high immigrant populations).

However, in open markets, global competition has set new rules (manufacturing delocalisation, global distribution players, competitive imitation, instable and non-loyal consumption) which have significantly scaled down the model of economic development based on the isolated small and medium sized enterprise without global networking relations. Instead they emphasise the importance of a robust national development policy based on the 'identity of the industrial system', in other words on precise 'intangible macro-system factors'.

This lack of a strong industrial policy in Europe and in individual nation-states underpins the profound crisis of the “made in Italy” label, and more generally of its national manufacturing vocation (as we can see from the crisis that has hit German technological excellence and French food products), where the problems of product trackability, the limitations on manufacturing abroad and obligatory labelling requirements highlight the contradictions of a socio-economic development based either on small artisan enterprises, or on large/medium companies. In other words, there are deep contradictions – which are elementary but not yet overcome – facing those encouraging local employment and those looking for a support for their sales, without having understood the growing importance of Asian countries in the world economy, which will entail a further acceleration of global integration processes in the next three to five years, and further growth in the size of ‘global networks’.