

Is market orientation affected by the product life cycle?

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Abstract

Considerable scholarly interest has been shown in the relationship between market orientation and business performance. Although a number of environmental moderators have been postulated to influence the market orientation–performance link, extant findings are inconclusive. This study takes a different approach by conceptualizing product life cycle stages in terms of variations in competitive intensity, market and technological turbulence. Data collected in Hong Kong reveal that Atuahene-Gima's [Atuahene-Gima, K. (1995). An exploratory analysis of the impact of market orientation on new product performance: A contingent approach. *Journal of Product Innovation Management*, 12: 275–293] product life cycle measure successfully discriminates stages in terms of market and technological turbulence, but fails to capture variation in competitive intensity. Market orientation is also found to be more highly valued by firms in growing and mature markets than firms in introductory and declining markets. Finally, the link between market orientation and firm performance is found to be strongest for firms in the growth stage and weakest for firms in the introductory stage of the product life cycle.

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1. Introduction

Within the marketing literature, the product life cycle (PLC) concept is a well-known metaphor for describing and explaining market dynamics (Day, 1981). The essence of the PLC is that product-markets evolve through four discrete and temporary stages, which can be distinguished in terms of unique demand and competitive conditions (e.g., Day, 1981; Harrell & Taylor, 1981; Levitt, 1965; Moon, 2005). Given the idiosyncrasies associated with these life cycle stages, it is somewhat surprising that the PLC has generally not informed research on another well-known marketing construct, namely market orientation (Chan & Ellis, 1998; Han, Kim, & Srivastava, 1998; Homburg &

Pflessner, 2000; Kohli & Jaworski, 1990; Matsuno, Mentzer, & Ozsomer, 2002; Narver & Slater, 1990; Selnes, Jaworski, & Kohli, 1996; Subramanian & Gopalakrishna, 2001). This omission suggests that our understanding of the performance implications of market orientation may be incomplete. Certainly the causal links between market orientation and performance have been shown to be contingent upon environment variables such as competitive intensity, technological and market turbulence (Atuahene-Gima, 1995; Bhuian, 1998; Greenley, 1995; Harris, 2001). But the past practice of investigating these environmental variables in isolation has yielded inconsistent results with some scholars, for example, finding a role for market turbulence (e.g., Greenley, 1995; Pulendran, Speed, & Widing, 2000) where others find none (e.g., Han et al., 1998; Jaworski & Kohli, 1993; Slater & Narver, 1994). As many of these external variables are comprehensively captured in the PLC framework, we posit that the PLC may prove to be a more elaborate and

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appropriate concept useful for the simultaneous examination of multiple sources of extraneous influence. Consequently, the aim of this study is to examine the performance implications of market orientation during the different stages of the PLC.

2. Literature review

2.1. Market orientation–performance research

A standard argument in the market orientation literature is that market-oriented firms are in a better position to satisfy the needs of their customers and are rewarded for doing so (Narver & Slater, 1990). The empirical link between market orientation and business performance was verified independently by a pair of authors at around the same time (Jaworski & Kohli, 1993; Narver & Slater, 1990). Since the publication of these two seminal papers, results coming from different settings have been mixed with stronger results generally returned from studies set in large economies such as the US (Jaworski & Kohli, 1993; Matsuno et al., 2002), Germany (Homburg & Pflesser, 2000) and India (Subramanian & Gopalakrishna, 2001). Weaker results have been found in other settings, including the United Kingdom (Greenley, 1995), Hong Kong (Chan & Ellis, 1998), Korea (Kwon & Hu, 2000), Scandinavia (Selnes et al., 1996), New Zealand (Gray, Metear, Boshoof, & Matheson, 1998) and China (Ellis, 2005). Given this discrepancy, many scholars have sought to identify the moderating effects of various environmental phenomena.

In their seminal conceptual piece, Kohli and Jaworski (1990, p. 15) first hinted at the role of environmental moderators when they opined: “though a market orientation is likely to be related to business performance in general, under certain conditions it may not be critical.” They then suggested some conditions under which a market orientation may be less valued and these include markets with limited competition, stable preferences, and technological turbulence. From this seed of an idea came work investigating the moderating role of competitive intensity (Atuahene-Gima, 1995; Harris, 2001; Kwon & Hu, 2000) and both market and technological turbulence (Harris, 2001; Jaworski & Kohli, 1993; Pulendran et al., 2000; Slater & Narver, 1994; Subramanian & Gopalakrishna, 2001). Yet, inconsistent results on these points remain a source of frustration to theoreticians working in the area. For instance, although the moderating roles of market turbulence, competitive intensity, and technological turbulence were found to be significant in the studies by Pulendran et al. (2000), Harris (2001), and Bhuian

(1998), respectively, non-significant results were reported in Slater and Narver (1994), Kwon and Hu (2000), and Han et al. (1998). Inspired by Kohli and Jaworski’s (1990) original comment, we take a novel approach to this problem by considering the interaction of competition, demand and technology implicit in the PLC.

2.2. The product life cycle

Analogous to the life cycle of living organisms, the PLC is a descriptive framework that classifies the evolution of product-markets into four stylized stages: introduction, growth, maturity, and decline (Levitt, 1965; Moon, 2005; Rink & Swan, 1979). During the introductory stage there are few competitors in the market. This provides innovators with an opportunity to use a price-skimming strategy as they seek to recoup their product development costs and promote awareness of the new product. In the subsequent growth stage, overall market sales increase dramatically attracting many new entrants into the market. Advertising during this second stage is geared towards promoting specific brands rather than generating product awareness. Sales growth begins to taper off as the market enters the mature stage. Eventually market saturation leads to price wars and intense competition among firms for market share. The decline stage of the PLC is entered when overall market sales begin to fall. During this final stage products are withdrawn from the market and firms reduce their marketing expenditures to cut costs.

Marketing scholars are widely divided regarding the merits of the PLC concept. On one side are those who fault the concept for its flawed assumptions, poor predictive power, and its propensity to give marketers tunnel vision (Enis, LaGarce, & Prell, 1977; Lambkin & Day 1989; Moon, 2005; Onkvisit & Shaw, 1986). It is undeniable that the stylistic PLC found in most undergraduate textbooks is weakened by several factors including; ignorance of feedback effects which may trigger self-fulfilling PLC prophecies, the “fatalistic and unwarranted acceptance of eventual decline,” and broader trends in the industry which may affect the ease with which new products are introduced (Lambkin & Day, 1989, p. 9). Other scholars see these shortcomings as a challenge to develop ever-more complex life cycle models that directly address those factors influencing the shape and duration of the PLC (e.g., Bauer & Fischer, 2000; Harrell & Taylor, 1981; Polli & Cook, 1969; Rink & Swan, 1979). We take the view that the PLC, while flawed as a decision-making model, has value as a descriptive framework for thinking about market dynamics (Day, 1981). Although managers may be

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