Challenges to Implementing Market Orientation in the Funds Management Industry

Kate Westberg*, Terrence Hallahan, Rajendra Mulye, Michael Schwartz and Constantino Stavros, RMIT University

kate.westberg@rmit.edu.au

Abstract

Market orientation has been extensively discussed in the literature however few studies have examined the challenges associated with adopting this orientation from both a firm and industry perspective. This study used depth interviews with senior marketing executives to examine the extent of market orientation in the funds management industry in Australia and the challenges associated with its implementation. The findings suggest that, despite the recognised need for market orientation, the industry is still primarily sales and product driven. Significant cultural and structural changes within the industry and individual firms are required before a market orientation can be achieved. External drivers, such as increased competition and the adoption of distribution channels which facilitate relationships with end consumers, may hasten the transition.

Key Words: Market Orientation, Funds Management, Marketing Strategy
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Introduction

The funds management industry is a significant part of the Australian economy given its size and expected growth (IBISWorld, 2006). Industry reports have identified a number of marketing issues as strategic drivers of firm competitiveness and profitability. Although a significant amount of academic research has been undertaken in the funds management industry, particularly in the finance area, there has been little work done in the area of marketing. The Australian Investment Management Survey (2005, p. 13) highlights the challenges of “dealing with volatile markets” and “responding to evolving client needs”. The survey results also indicate that those challenges were “the greatest opportunities to investment management organisations” (p. 14). This survey also identified the industry’s key marketing opportunities as relating to attracting new clients, retaining existing clients, brand image/reputation, adapting to client needs and entering new markets.

Further, the IBISWorld (2006) report on the funds management industry has deemed marketing-related issues to be of importance in the future outlook for the industry. Customer management issues, including retention and increased selling to existing customers, have been acknowledged as key revenue drivers. Previous research pertaining to Australian superannuation fund members identified the importance of meeting or exceeding customer expectations in order to achieve customer satisfaction, increased spending and referrals (McDonald, Vieceli and Darbyshire, 2003). Given the anticipated focus on customer management, brand management, product innovation and distribution channels for the funds management industry (IBISWorld, 2006; PricewaterhouseCoopers, 2005), the degree to which an individual firm embraces a market orientation may be a key driver of their success. Despite the perceived importance of marketing to the industry, little is known about the degree of market orientation of the firms within the funds management industry. This study examines the extent to which firms in the industry have adopted this orientation and the factors that have encouraged or inhibited this focus.

Literature Review

Market orientation is one of the most widely researched marketing applications (Flavian and Lozano 2006; Matsuno, Mentzer and Rentz, 2005; Van Egeren and O’Connor, 1998). However, professional services firms, compared to other industries, have been late adopters of the marketing concept but are increasingly realising the importance (Van Egeren and O’Connor, 1998). Market orientation is defined as the “organisational culture that most effectively and efficiently creates the necessary behaviours for the creation of superior value for buyers and thus, continuous superior performance for the business” (Narver and Slater 1990, p. 21). These behaviours consist of three components—customer orientation, competitor orientation, and interfunctional orientation, and two decision criteria—long term focus and profitability (Narver and Slater, 1990). Kohli and Jaworski (1990) consider the collection, dissemination and response to customer and market intelligence as integral to market orientation. Gray and Hooley (2002) more recently proposed a definition to encapsulate both the cultural and behavioural aspects of the Narver and Slater (1990) and Kohli and Jawarski (1990) definitions.
A review of market orientation studies has demonstrated a strong and persistent correlation between market orientation and firm performance on all major performance indicators (Ellis, 2006). Gray and Hooley (2002, p. 982) suggest that an organisation that displays the characteristics of a market-orientated approach will be more successful as they “understand their customers better and are more aware of the choices which competitors are offering them.” Sittimalakorn and Hart (2004) suggest that a market-oriented firm is more likely to be aware of what customers want and will further attempt to deliver superior customer value through product and service quality. Locating new customers demands a competitor orientation, particularly as the competitive landscape intensifies (Ozer, Kocak and Celik, 2006). Similar to customer orientation, market intelligence relating to an organisation’s competitors is an ongoing requirement (Day, 1994). Understanding the environment in which the organisation operates is common practice displayed by most organisations. However, generating market intelligence and being able to effectively disseminate this information throughout an organisation for the purpose of decision-making, is displayed more so among organisations which are market-oriented (Panayides, 2004; Gray and Hooley, 2002).

This is the first study to investigate overall market orientation in the funds management industry. Previous research has focused only on specific aspects of marketing such as customer satisfaction (e.g. McDonald, Vieceli and Darbyshire, 2003), consumer behaviour (e.g. Thomas, Rao and Javalgi, 1990), branding (e.g. Brady, Bourdeau and Heskel, 2006) and advertising (e.g. Huhmann and Battacharyya, 2005). This study responds to calls for more research into the efforts of different types of organisations in adopting a market orientation (Beverland and Lindgreen, 2007). This research investigates the extent to which firms in the funds management industry have adopted this orientation and the challenges they face. In particular, this study explores whether firms in this industry exhibit the culture and the behaviours consistent with a market orientation.

**Method**

This exploratory study applied an interpretative, qualitative research design using depth interviews (Strauss and Corbin, 1998). Nine funds management companies were purposefully selected (Merriman, 2002; Straus and Corbin, 1998). These global firms, located in Sydney and Melbourne, represent the largest funds managers in Australia in terms of the dollar value managed. Semi-structured depth interviews were conducted with the senior marketing executive, such as the general manager marketing or chief marketing officer, within each organisation. Informants included five males and four females with between 10 and 18 years of experience in the industry. Experience in the current positions varied from less than one year to seven years. Five informants had marketing qualifications, three had finance related qualifications and one was not reported. An interview guide was prepared, allowing for uninterrupted detailed discussions. This guide contained a mixture of nondirective and floating prompt questions in the “grand tour” style suggested by McCracken (1988).

Informants were asked to provide information regarding the structure and role of their marketing department, key influences on their marketing strategy, their understanding of the concept of market orientation and the extent to which that orientation existed within their firm and the industry in general. Informants were then asked to comment on, and provide examples of how the needs of customers are identified, how competitive intelligence and information on market trends is gathered and finally, how this data is disseminated and used.
Basic demographics and company information was also collected. Interviews were taped and where this was not possible, notes were taken. Each interview lasted approximately one hour. The resulting information was grouped by statements and ideas according to common themes that emerged from the data. Further refinement occurred to produce specific quotes to support propositions relating to market orientation within the industry. This process reflected a mix of the coding approaches outlined by Strauss and Corbin (1998).

Findings

Overall the data revealed varying levels of market orientation as evidenced by senior marketing executives’ understanding of the concept and the apparent culture of these firms in relation to marketing, customers and a long term orientation. Further, the data revealed some evidence of market-oriented behaviours in terms of intelligence gathering, but there was limited evidence as to how it informed strategy. The market orientation of the industry as a whole is seen as limited, although individual firms do exhibit some cultural and behavioural characteristics associated with this concept. There was unanimous recognition of the importance of a market orientation due to increased competition and changes in regulation. Informant comments such as “Everyone is getting more marketing focused... Some companies are still primarily product focused, but it is changing” (Informant 2), in relation to the industry, and “The CEO sees himself as the chief marketing officer” (I4) in relation to a specific firm, articulated this emerging focus. In contrast, however, another informant (I3) suggested that “The leadership of (company name) do not understand marketing” indicating that this transition is far from consistent. One informant (I7) was even more damning of the industry’s degree market orientation in general suggesting, “The concept of a formalised method being used in most financial services marketing is ‘basically laughable’. It is mostly short term responsive and thin on strategic planning.”

Firms in this industry consist of traditional funds managers and firms who have extended into funds management from the life insurance industry. Companies with an insurance background were perceived to have a stronger customer orientation, perhaps given their historically strong sales focus. However, it was also suggested that one of the factors that inhibited a more developed level of market orientation related to the sales background of senior management. A couple of firms were actively recruiting marketers from the FMCG area in recognition of that industry’s stronger marketing focus.

Despite articulating a good understanding of market orientation and acknowledging the need for it within the industry, the majority of senior marketing executives perceived their firms and the industry as very product and sales driven, with marketing performing a sales support role. The role of marketing quite often entailed producing brochures and other promotional materials; it was therefore not surprising to find that all firms had in-house graphic design and production departments. The function of the marketing department, however, did vary across organisations. One firm’s marketing area focused primarily on promotion, with strategy and sales activities undertaken by separate areas. Another marketing department was charged with identifying opportunities, creating products and developing promotion, while a third had a more strategic focus of brand building in addition to promotion. However, the concept of building a brand was not always well understood in practice, with one marketing executive (I8) commenting in frustration that the company’s branding strategy simply revolved around golf balls and hats with the company logo, further lamenting that marketing’s role was “designing flyers, pretty pictures and doing conference things and conventions.”
Given the traditional focus on short term sales results held by most firms in the industry, the informants felt that investing in longer term payoffs such as building brand equity would be a difficult concept to sell internally. Several informants suggested that marketing was often viewed as a cost centre versus the revenue generating sales side of the business. This sentiment was best articulated by one executive (I7) who stated, “Sales has always been where the value can be seen.” The majority of firms did have processes for collecting data on customers, competition and the market environment. However, there often appeared to be a limited attempt to use that information as input to more segmented product and promotion strategies. This shortcoming was encapsulated by one informant who summarised their strategy as “position, pitch and promote to all.” (I2) Two informants admitted that marketing in their respective firms was limited and lacked strategic focus.

Several informants expressed a sense of frustration that having a market orientation in this industry was difficult or more complex because of their reliance on intermediaries, and this strategy could lead to channel conflict. However, there seems to be an increasing focus within the industry on the end consumer, and one executive (I3) identified this group as their principal focus, suggesting that their marketing area “has to create more consumer pull.” Other factors attributed to the limited adoption of a strong market orientation included the structure and culture of the organisation and the short term sales focus. For example, if the leadership of the firm, and particularly the CEO, were not marketing focused, this was perceived to directly influence the extent of market orientation. The predominantly sales and finance backgrounds of many senior managers was seen to contribute to this situation. One informant (I9) summarised this cultural clash when he described his interpretation of market orientation as “A marketing led organisation as opposed to a finance led organisation with a marketing function”, later commenting “There is not one head of any Funds Manager who is marketing oriented in Australia. Most of them have come from the other side of the business.” Another executive (I7) was even more forceful when suggesting, “The product and business groups are mostly financially trained people who rarely even like the idea of marketing” and described the attitude held by salespeople and financial advisors toward marketing as “hostile”.

The tension between sales and marketing within organisations was often exacerbated by structure. It was rare for sales and marketing to report to one sales and marketing director, with sales often operating quite separate to marketing. In one instance, the marketing department actually reported to sales. A common view of many of the executives was expressed by an informant (I5) who stated, with some degree of exasperation, “There is always some sales/marketing friction.” Even when operating in an organisation with a structure that encouraged an alignment between the two functions, one informant admitted (I2), “We currently have about one-third of our people who think in terms of an alignment; one-third who think marketing should tell sales what to do and one-third who think marketing is there to support sales.”

Finally, almost all marketing executives believed that changes to the industry would ultimately lead to a greater degree of market orientation and a more critical role for marketing. As one informant (I7) stated: “There is a growing move towards dealing with investors more directly in most companies – via an online operation. Marketing – understanding customers better and developing better long term relationships and having better offers - is going to be more important.” This change was seen as likely to occur in the face of greater competition, more focus on the end consumer and the use of online channels.
Discussion and Conclusion

The findings from this study suggest that the funds management industry has not yet adopted a true market orientation and is only moving slowly toward this goal. However there is evidence to suggest that some key players are more sophisticated in their marketing efforts and therefore are further along in embracing this position. One of the key inhibitors to change is the culture and structure of individual firms and the industry in general. The culture and leadership of the organisation has been found to play a key role in adopting a marketing orientation (Homburg and Pflesser, 2000; Kennedy, Goolsby and Arnould, 2003). The industry, as it currently stands, is still entrenched with a short term product and sales focus that has served these firms well in the past. This is consistent with the literature which suggests that business-to-business firms, in comparison to consumer marketers, are “less marketing oriented in culture and behavior” and more likely to maintain a sales focus (Gournaris and Avlonitis, 2001, p.373). Marketers in these firms appear to recognise the need to be more market oriented and strategic in developing their brand and long term customer relationships, but are thwarted by the organisation’s tendency to relegate marketing to brochures and sales support. Research suggests that implementing such a market orientation requires marketers to transcend a marginalised role by forming relationships with key stakeholders and using marketing research to influence the organisation’s leadership (Beverland and Lindgreen, 2005). In addition, credible leadership endorsement is required to effect a change in orientation as well as the use of customer data to support the need for this change and an interfunctional ‘connectedness’ (Kennedy et al., 2001, p.78). For the funds management industry, external drivers such as changes in legislation, increased competition and emerging use of direct distribution channels to develop relationships with end consumers may hasten the transition to a more market oriented industry. Market orientation has been found to be particularly critical in dynamic environments (Homburg and Pflesser, 2000). This study does have some limitations in terms of its focus on one industry at one point in time. In addition, at this exploratory stage only senior marketing executives were interviewed, views of those occupying other roles within the organisation should be sought. A longitudinal study would also provide valuable insight into the process involved in the transformation to a market-oriented firm and industry.

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References


