SWP 9/92 MAKING SENSE OF MARKETS: A PROPOSED RESEARCH AGENDA

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Introduction

Levitt's Marketing Myopia (1975), emphasises the importance of how organisations frame or define their markets. The implication being that markets and market opportunities are not clearly defined 'givens' available to all players in the market place but are the result of the organization's interpretation of the environment and that by changing or adapting such an interpretation new markets and opportunities can be revealed.

This theme of market enlightenment to which Levitt adheres has been an enduring message echoed in the practitioner orientated marketing literature. Recent examples are provided by Hamel & Prahalad (1991) who emphasise the increasing role of corporate imagination in defining and redefining markets, by Anthony *et al* (1987) who, among other things, suggest the use of mental imagery to enhance market analysis and by Knight (1991) who suggests that many organisations' definition of the 'market' is a distinction developed from production processes, or taxation definitions rather than the needs of the market place and that, by breaking out of these restricting definitions, the organisation can realise new marketing opportunities.

In the light of such entreaties to the practitioner community it would be natural to expect that a significant proportion of academic research into the marketing area has been undertaken to explore and understand how organisations construct their interpretation of markets and the variability of such interpretations at the inter- and intra-organisational level.

However even the most cursory review of the marketing literature reveals that this is in fact far from the case and that the vast majority of academic research in marketing is based on externally defined or given markets. Such research has tended to assume that organisations in, for example, the machine tool or mineral water markets have fixed interpretations of these markets and their boundaries, these are generally assumed to be given and this assumption enables the research to focus on other issues such as market orientation, innovation rates or planning horizons etc. Whilst such approaches are often necessary for achieving particular research goals, there may also be a case for adopting a more exploratory or inductive approach to understand the nature of market definition.

Managerial Perception

Within the field of marketing the concept of perception has been widely applied in the context of buyer behaviour at both the consumer and industrial levels, there is also a body of literature which appraises the impact of perception and perceptual process on managerial behaviour. Managers have to make sense of the environment through their perceptual systems in the same way as customers do. There are indications that managers also respond to increasing complexity with increased simplification (Duhaime & Schwenk, 1985; Schwenk, 1984) and that they may also bias, distort or filter stimuli to support their existing belief structures (Barnes, 1984; Walsh, 1988).

So if it is accepted that managers perceive and such perceptions affect behaviour, how do they perceive markets and how may this affect market behaviour? In an appraisal of the nature of marketing channel conflict Etgar (1979) identifies differing organizational perceptions or world views of the channel members as a key factor in creating conflict within the channel, if organisations who are actively co-operating have substantially differing perceptions, what about those who are competing?

Markets can and have been defined in a number of various ways; Table 1 outlines some of the predominate concepts outlined in the literature:

Dimension Used	**Source**
Customer Group	Hanaan (1974); Abell (1980); Day (1981)
Customer Function	Levitt (1974); Abell (1980); Day (1981)
Technology	Abell (1980); Day (1981)
Competitors	Porter (1980); Day (1981); Harris (1982)
Products	Knight (1991)
Geography	Dichtl et al (1983); Crane & Welch (1991)
Production-Distribution	Day (1981); Knight (1991)

Table 1: Dimensions Used to Define Markets.

Table 1 gives rise to a number of possible research questions: Do the use of such dimensions vary by industry or even within competitive groups in defining operational markets? Do the use of dimensions vary at different levels within the organisation? Are there other dimensions which are being applied but are not currently identified in the literature? This brief list and related questions indicates that an interpretive understanding of how managers construct markets may well elicit even further variety or idiosyncrasies.

So what do we actually know about how managers, and therefore organisations, make sense of markets? Day (1981) has proposed the existence of two perspectives in defining markets, the top down which focuses on strategic issues using variables such as competitors or resource transferability and the bottom up which is considered a tactical perspective focusing on customer requirements and usage in order to determine the marketing mix variables. Day considers that a manager's perspective of the market is a function of the breadth of his/her responsibility, implying that intra-organisational market definitions are likely to be highly variable. Conceptual work such as that of Day (1981) and Abell (1980) are valuable steps in the process of developing an interpretive theory of markets, but methodologies are needed which can be used to operationalise these concepts and thereby provide a basis for primary research into understanding how managers make sense of markets. One particular perspective is that of the interpretive study which uses concepts from cognitive psychology to define a methodology.

Interpretive Frameworks

A body of literature has arisen from the strategic management perspective attempting to construct interpretive frameworks of how managers make sense of their world. Within this context market definition provides an important element of the environment in which the business must operate. Such frameworks have largely focused on the competitive environment, for example Porac & Thomas (1990) have used an approach based on categorisation theory (Mervis & Rosch, 1981) to explore the mental maps which managers hold of their competitors, they found that managers' tended to select only a limited number of firms against which they felt they were competing, Porac & Thomas described such phenomena as 'cognitive oligopolies'. Continuing the emphasis on markets as competitive groupings Reger (1988) used construct theory (Kelly, 1955) to elicit the dimensions which managers were using to assess their competitors, this revealed a number of dimensions which had previously not been considered in the literature, again providing an indication that interpretive frameworks my illuminate new aspects of managerial process and behaviour.

Excepting the competitive dimension for understanding markets there appears to have been limited application of the alternative dimensions indicated in Table 1. For example Stubbart & Ramaprasad (1988) used cognitive mapping to explore the views of two industry leaders and identified differences in their maps in terms of reference to customers, international/domestic orientations etc. Dichtl *et al* (1983) utilised the concept of psychic distance to explain managers orientation toward foreign investment a concept which has been supported by more recent studies (Williams, 1991).

It appears therefore that further exploration of how managers themselves construct markets may well provide new insights into market behaviour. indeed the implication of such an approach is that the importance of concepts such as market share and PIMS may need to be re-evaluated on the basis that they are founded on the concept of externally defined markets, and that further insight and understanding can be achieved by establishing how such markets are constructed at the organisational and individual level:

> *"The difficulties associated with actually defining product/markets or submarkets leads to considerable confusion about how to measure 'market share'. There is implicitly a presumption that competitors define their activities in the same space. In reality, if the product/market strategies of individual firms or groups or firms differ substantially, this may not be true."*
>
> *Abell (1980: 24)*

It is therefore a challenge for managerial researchers to explore how managers and organisations make sense of markets, which dimensions or categories they may utilise and how these may be variable at an intra-organisational level (Day, 1981) and at an inter-organisational level (Porac et al, 1989) and whether these are influenced by regulatory influences such as taxation, production processes and other technologies. Such an interpretive approach cannot be viewed as an alternative research perspective to those which have utilised externally defined markets, but as a complementary approach which enhances our understanding of the implementation of marketing concepts and strategies.

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