Market competency: the role of the customer in evaluating strategic competitiveness

Michael D. MacColl
Vancouver Island University
Nanaimo, British Columbia, Canada

Keywords
Market Competencies, Core Competencies, Competitive Strategy

Abstract
The concept of Market Competency is explained as a market related intermediary that qualifies core or internal competencies before competencies can be compared with other firms in evaluating competitive advantage. Market competencies are those core or internal competencies that are customer and hence market relevant. Identification of Market competencies provides a common metric for comparing firm activities from which competitive advantage may emerge.

1. Introduction

This paper presents the concept of Market Competency as a conditional linkage between the internal or core competencies of the firm and meeting the requirements of the market. It is argued here that only when firm value chain activities are made relevant to the market that competitiveness and survival can be considered. Unless core competencies are directly market relevant, they are insufficient. Thus, achieving market competency completes the firm's linkage to the customer.

It is also argued, that by considering the market competency concept there is now a common metric by which firms can be compared towards determining competitive advantage. By identifying customer selection and decision criteria, firms can extend themselves towards meeting those customer relevant expectations and in turn, make themselves relevant and competitive.

In this paper it is further proposed that core competencies do not, in many cases, relate to the marketplace, and the path to discerning competitive advantage is incomplete and presumptuous. To extend core competencies and link them with the competitive arena, the concept of "market competency" is offered.

This paper firstly, introduces the concept of market competency and how it can provide a seamless logical flow of value chain activities from resources to the marketplace. Secondly, by using Market Competencies as identifying the scope and points of competition among firms, competitive advantage can be assessed more specifically on a (market) competency by competency basis – and not necessarily from a core (internal) competency.

Lastly, in applying the market competency concept towards competitive analysis, is the integration of two streams of strategic thought – the I/O model, in particular the value chain approach from Porter (1985), and the resource based model (Barney, 1991). Building a value chain activity map and then evaluating activities using resource based model concepts provides a common method for assessing a firm and its competitors – to which the market competency is central.

2. The market competency

2.1. Market Competency is a mediator between the marketplace and core competencies

A Market Competency is a market relevant competency. As not all core competencies are market relevant, the notion of Market Competency is viewed here as a mediator between the marketplace and Core Competencies created by the firm. In the scheme of value chain activity systems, market competency can be seen as refining, redefining and recombining core competencies that make them market relevant. Market Competency can be attained by firms if their outputs successfully satisfy market needs.

2.1 An illustration

There is an often told story of a traveler in medieval times that came across a considerable number of workers chipping and shaping stones. To satisfy his curiosity about what all the activity was for, he approached the closest worker and asked what he was doing. To the disappointment of the traveler, the man replied "I'm just earning a living". Rather than probe further the traveler moved over to another man doing much the same as the first and repeated his question. To his amusement, the man replied "I'm making the most perfect stone block". But the travelers' curiosity was not met and he proceeded to still another worker repeating his question. The workers' reply was the most satisfying of all when he said "I'm building a cathedral".

Making the most perfect stone block is surely a competency but without an external referent such as a marketplace or customer (let alone an objective), the efforts at perfection may be misdirected or worse unwanted – particularly if the product is unmatched to the larger design. Imagine if LEGO did not standardize the buttons and fastening parts on its bricks – little could be assembled and – you would have never heard of LEGO. But even creating consistency, reliability and compatibility among LEGO pieces, despite the sophistication in engineering involved (a core competency), is not enough. Competitive survival for LEGO depends on creating new themes and designs (also a core competency), but these new products need to capture the interests and imagination of users (and not just children anymore) on a continuous basis. This successful connectivity to the market place in capturing the interests and imagination of customers is a market competency. This is the key to competitive survival. Without this, all prior efforts can be squandered.

2.2 The source of market competency

The existence of a market competency evolves from customer relevant attributes of products and services. For the most part, customer requirements drive product attributes, and these become the determinants of the points on which firms compete. These points of competition develop from customer needs, wants and psychographics, and are thus market derived. For instance, when selecting an airline, customers variously evaluate price, access convenience (both departure and arrival locations), safety record, quality of service, on-time record, and the prospect of being reunited with their luggage. These are the points on which competition is based. Market competencies can be created by meeting any of these points of competition based on customer expectations. In short, it is the customer expectations that create the firm's objectives in meeting those expectations. If the expectations can be met, the firm has achieved market competency.

Most firms are challenged to develop activity systems to accommodate marketplace expectations. Particularly when the marketplace and thereby customers, both create multiple demands and evaluate firm outputs. For most markets there are multiple dimensions by which firms compete, but it is highly unlikely that any one firm will successfully meet customer expectations on all product or service dimensions. Thus while firms may attempt to meet customer expectations on as many dimensions as possible, it is far more likely they will achieve (market) competency on only a couple of dimensions at best.

Only rarely when a firm can appeal to a marketplace in a novel way, will a firm create a new point of competition and drive the market. For the most part however, firms follow customers and can only survive if they can provide at least one dimension (market competency) relevant to customer selection decisions.

2.2 Missteps in the competitive and competitor analysis literature

A recurring problem in strategic analysis is the link (often and erroneously made) between core competency and the achievement of competitive advantage. Core competencies may be the roots of competitive advantage (Prahalad and Hamel, 1990, Hamel and Prahalad, 1994) but do not directly lead to competitive advantage. Teece, Pisano and Shuen (1997) also recognize that a firm's ability to leverage competencies towards achieving a competitive advantage is contingent upon environmental conditions. More specifically the competencies mustered by competitors and the decisions of discerning consumers present two environmental contingencies that require consideration prior to awarding competitive advantage. Thus there is no direct connection yet made between competencies and competitive advantage as assessing competitive advantage from only internal activities would otherwise be self-serving and myopic.

Essentially, two intervening requirements of core competencies are needed before the determination of competitive advantage can be made. First, as previously identified, beyond the achievement of a core competency, is this competency relevant to the market (is this a market competency?) and second, if this is a market competency, how does this market competency compare with the market competencies of competitors? Without market relevance a core competency cannot be a point of competition and one on which a customer decides between firm's products/services. Further, firm products/services that have achieved market competency have to be compared by the marketplace with the products/services of other competing firms.

While this rationale may appear to point out limitations to the resource based view (Barney, 1991, 1995; Priem and Butler, 2001; among others), it also suggests that the strategic positioning approach (Porter, 1996) is also incomplete. While a systematic approach to understanding industry conditions is necessary, the inclusion of competitive rivalry as part of industry analysis does not provide an assessment of competitor firms – only an aggregate of the conditions created by industry firms. This does not provide the basis for an equivalent firm by firm (competitor) analysis and subsequent firm to firm competitive analysis - and both are needed to determine competitive advantage.

The role of the customer appears largely missing in the resource based (Barney, 1995) strategic positioning, value chain, dynamic capabilities discussions (Presutti and Mawhinney, 2009) as well as other perspectives and models. By appearing largely missing, the literature may be assuming a customer role, but this does not assist in identifying the needed activities to meet customer expectations.

More recently, Greco, Cricelli and Grimaldi (2013) include the customer as one of a number of contributing factors in the creation of intangible asset value drivers but the primacy of customer influence appears diluted in their somewhat complex decision model.

Bartlett and Ghoshal (2000) identify core competencies as: a harmonization of streams of technology; providing access to a wide variety of markets; making a significant contribution to perceived customer benefits of the end product. Thus, they are the platform from which market relevant competencies and customer benefits are created. They do not specify the mechanism or value chain activity that effectively delivers the customer benefits.

De Marchi, Di Maria and Micelli (2013) cite Drucker in recognizing primacy of the customer and building value chains to meet these needs but provide no specifics or evaluation of competencies. If, as Drucker says, you start with the customer then there should be a working backwards through the firm to create value in meeting these needs. These authors recognize the customer and thus efforts for value creation but do not provide consideration or mechanisms to evaluate firm activities towards meeting customer needs.

Rashidirad, Soltani and Salimian (2015) in examining the resource based literature identify only one of forty sources that considered customer value as an independent variable. Even here, for Saeed, Grover, and Hwang (2005), customer value was a mediating variable on firm performance. They do use the term "electronic commerce competence" which could be reinterpreted to mean market competence although this was not presented as such. Pisano (2016) discusses general and market specific capabilities, yet while intendedly market directed it remains unclear if the use of capabilities is in keeping with that of the resource based perspective. If this is so, then capability as used has a different meaning than competency – yet seemingly directed also at a competitive market.

3. How is a market competency related to or different from a core competency?

3.1. Market competencies derive from core competencies.

Prahalad and Hamel (1994) suggest that a firm should have no more than four or five core competencies as more would be distracting to organizational efforts, however, the resulting market based competencies might possibly be larger depending on the consumer dimensions addressed. For example, Canon's core competency in digital imaging technology, may result in multiple consumer product dimensions being addressed such as processor speed, resolution/pixel density, and aperture options for its lenses. Each of these resulting product dimensions is a market competency because it is these features consumers consider in their purchase evaluation. Each market competency has at least one core competency behind it.

3.2 Core competencies are mostly limited to internal activities

A core competency is a concept in management theory introduced by Prahalad and Hamel (1990). It was defined as "a harmonized combination of multiple resources and skills that distinguish a firm in the marketplace". Core competencies were further explained as fulfilling three criteria: providing potential access to a wide variety of markets; make a significant contribution to perceived customer benefits of the end product; and should be difficult for competitors to imitate.

The first criterion providing access to a wide variety of markets is an important perspective. Here we are reminded not to only see the end products and be limited in what we might do with a product, but rather to see the underlying competencies required that might be leveraged to other products and markets. This reinforces the core nature of these competencies as they are internal to the firm and basic to potentially many products and services.

The second and third criteria however may need further qualification. To make a significant contribution to perceived customer benefits of the end product is necessary but not sufficient. In a number of instances, many core competencies relate only to internal processes and for which the marketplace has no interest. Not all core competencies have relevance to the customer and many are unseen by the customer which means not all core competencies can lead to competitive advantage as is so frequently assumed. This necessary but not sufficient condition will be elaborated upon shortly.

The third criterion requiring that a core competency should be difficult for competitors to imitate assumes that competing firms have been analyzed as to what they can do and that firms have then been compared as to whom might perform some activities better than others. Only by comparing firms can we see what is rare or common, but difficulty in replication presumes core competencies are socially complex, intangible, achieved only over a long time, costly, and based on perhaps tacit knowledge. These are tall orders. All of these considerations are beyond the analysis of the firm and take us into competitive analysis. As such, this does not relate to the formation of core competencies but rather an idealized competitive position.

3.3 Core competencies are necessary, but not sufficient

Core competencies are necessary precursors of market competencies but are not necessarily market relevant themselves, as previously noted. This is consistent with proponents of the concept of core competency (Prahalad and Hamel, 1990) but the position taken here diverges and makes a more specific case with the inclusion of the customer and market. Firms do not compete on the basis of resources, capabilities or core competencies unless they are directly of interest to the customer. Why would a firm focus its attention and build an activity system to create skills, knowledge, processes and set goals that have no direct bearing on customer purchase or consumption decisions?

In fact, many core competencies have no relevance to the customer. There is a long list of competencies for which the customer is never involved or has little direct concern or even knowledge about. Consider, cost reduction processes, efficiency enhancing equipment and processes, cash flow, profitability, market share, employee productivity, technical skill and knowledge and stable supplier relationships as just a few examples. Every one of these can be important goals for the organization and contribute to success factors. But they are all internal achievements.

The point needing emphasis is that core competencies should be treated firstly as internal achievements (strengths) and then evaluated for relevance to the customer. This is consistent with

Akhter and Robles (2006) following Luo (2001) who treat firm competencies as internal attainments that must be matched to external market conditions, such as (in their study) uncertainty, in making strategic (entry mode) choices. However, these and other authors do not extend their considerations to the role of the customer, nor do they link the notion of core or internal competencies to meeting external market conditions. They are not alone.

3.4. Market competency is an evaluated boundary spanning activity

The creation of organization outputs or capabilities have to be evaluated to see if they are meeting internally established organization goals (and are done consistently well), thus meeting the basic conditions for a core competency. But having achieved core competency, we need to reach beyond a strictly internal analysis and determine the market relevance of our output capabilities. Here, Wernerfelt's (1984) two sides of the coin metaphor regarding internal and external analyses might be better seen as a permeable membrane that permits an interface with the customer. Internal competencies evidenced from internal (firm) analysis need to be connected to the external environment, and specifically the customer. So in addition to accomplishing internal process goals (competencies), competencies should be evaluated again for external relevance as it is ultimately the customer who determines what is important. It is the market competency that spans the organizational boundary to the customer. Thus once an activity is market relevant and is positively evaluated (successfully achieved) this makes the market competency a boundary spanning function.

3.5 Market competencies and core competencies can sometimes be the same

Only some core competencies extend themselves as relevant to customers. While the set of important competencies will vary from market to market and even by customer, there are some commonly encountered competencies that conceptually are unchanged in their importance as both organization and market relevant.

Among these are quality, brand, service, to name a few. It would be unusual that product quality would be important to the firm but not the marketplace and for the vast majority of cases product quality as a successfully achieved organizational goal transfers to being a market competency as well. If the former were true, it is then questionable why a firm should spend resources towards attaining a non-market relevant objective. Variously, brand, recognition and image are commonly both internal/core competencies and market competencies when accomplished. Service is often directed towards and for the benefit of the customer and thus becomes an obvious case of market and internal competency commonality. However, the group of internal competencies noted previously that are not market relevant require reconfiguration and sometimes recombination in order to create a market relevant competency.

In many manufacturing cases, a firm's organizational culture that is positive and supportive of operations would only be considered a core competency, and perhaps have an impact only on external stakeholders in direct contact with members of the firm. However, service organizations involve the customer. The customer experience and interactions are part of the organizational core. In such situations, organizational culture and consequential service are directly experienced by the customer and become both core and market competencies.

4. Summary and directions for further application

4.1. What a market competency enables and provides

To summarize we have identified the following points:

1. Market competency is a positively evaluated market relevant competency.
2. Market competency is a mediator between the marketplace and core competencies.
3. Market competencies derive from core competencies.
4. Core competencies are mostly limited to internal activities.
5. Core competencies are necessary, but not sufficient.

6. Market competency is an evaluated boundary spanning activity.
7. Market Competency connects internal analysis with external relevance.
8. 8. Market Competency provides an opportunity for integration of the RBT and I/O perspectives in strategic analysis.
9. Market competency is a foundation for further strategic analyses: moving on to competitor and competitive analysis.

In extending this work, Figure 1 below, illustrates how a market competency can provide a common metric and extend internal analysis to competitor analysis and then further to competitive analysis and the determination of competitive advantage and sustainability of the advantage. By identifying internal activities and evaluating these activities for competence both core and market competencies emerge. This can be done for each firm and then by using only the market competencies, firms can be compared for any potential advantage held in a particular market competency.

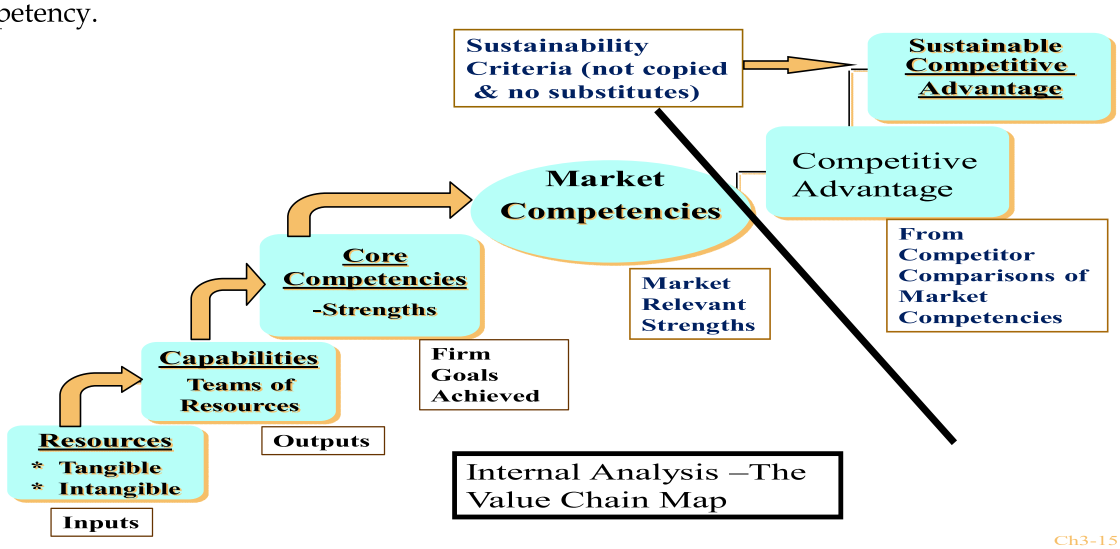

Figure 1. Internal Analysis of the Firm: The Mediating Role of Market Competencies in Mapping and Evaluating Activities.

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