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# Customer Orientation or Competitor Orientation: Which Marketing Strategy Has a Higher Payoff for Hotel Brands?

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## **Abstract**

This study of hotels representing thirty-seven brands from fifty-six countries uncovers the market conditions under which investing resources in specific market strategies leads to higher performance. Specifically, the authors identified, for the first time in an international context, the circumstances under which customer orientation (acquisition, satisfaction, and retention of customers) alone has a higher payoff or when simply investing resources on competitor orientation (monitoring, managing, and outflanking competitors) alone is the better strategy. An additional interesting twist, not shown before to the authors' knowledge, is that in the cases where a customer-based strategy has a higher payoff, focusing on competitors diminishes performance. Similarly, in a market where competitor-based strategy has a higher payoff, a customer focus lowers performance.

## **Keywords**

market orientation, customer orientation, competitor orientation, marketing strategy, performance, global, hotel, brand

## **Disciplines**

Hospitality Administration and Management | Marketing

## **Comments**

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# Customer Orientation or Competitor Orientation

## Which Marketing Strategy Has a Higher Payoff for Hotel Brands?<sup>1</sup>

by CHEKITAN DEV, KEVIN ZHENG ZHOU, JIM BROWN, and SANJEEV AGARWAL

This study of hotels representing thirty-seven brands from fifty-six countries uncovers the market conditions under which investing resources in specific market strategies leads to higher performance. Specifically, the authors identified, for the first time in an international context, the circumstances under which customer orientation (acquisition, satisfaction, and retention of customers) alone has a higher payoff or when simply investing resources on competitor orientation (monitoring, managing, and outflanking competitors) alone is the better strategy. An additional interesting twist, not shown before to the authors' knowledge, is that in the cases where a customer-based strategy has a higher payoff, focusing

on competitors diminishes performance. Similarly, in a market where competitor-based strategy has a higher payoff, a customer focus lowers performance.

**Keywords:** market orientation; customer orientation; competitor orientation; marketing strategy; performance; global; hotel; brand

**B**y adopting a market orientation, a firm commits itself to satisfying its customers' needs over the long run. Although profitability, market share, return on investment, and other performance benchmarks ultimately determine the success of any

1. This article was adapted from Zhou et al. (2007).

strategy, a market orientation is meant to achieve such goals by providing customers with superior value on a sustained basis. Those familiar with the concept understand that adopting a market orientation is not merely undertaking a marketing department initiative but, instead, means instituting an organization-wide culture that, when properly established, provides a firm with norms and beliefs that shape an integrated organizational strategy for sensing changing customer demand and competitive challenges as well as anticipating future market conditions.

Business scholars established the theoretical usefulness of the market orientation concept in seminal articles published more than fifteen years ago, but much work remains to refine the concept so as to render empirical results achieved with its application useful to corporate executive and management teams (see, in particular, Kohli and Jaworski 1990; Narver and Slater 1990). We found in this study an opportunity not only to contribute some important results to the theoretical literature but also to provide some practical information to global hotel managers looking to implement the most advantageous strategy in overseas markets.

John Narver and Stanley Slater (1990, 21-22) laid down the canonical view of the market orientation as comprising three main components: a *customer orientation*, through which a firm strives to understand its target customers; a *competitor orientation*, through which a firm strives to understand what its competitors are doing; and *interfunctional*

*coordination*, the organizational culture that orients employees in all departments of a business unit toward understanding the firm's market in terms of both customers and competitors. There is widespread consensus that such a strategic orientation can create "superior value" for customers and thereby generate "continuous superior performance" for a firm (p. 21).

In spite of the general acceptance of the efficacy of a market orientation, however, several theoretical issues remain alive, and in this study we addressed primarily three of these issues—namely, the extent to which the efficacy of a market orientation depends on environmental factors; whether, within a market orientation, a firm should concentrate more of its resources on being customer oriented or on being competitor oriented; and how being in a global market plays into the effectiveness of a market orientation. To test the effects of environmental factors on the market orientation, we developed hypotheses that assume what is known as the *contingency* approach; that is, we designed our study to test whether the results of a market orientation depend on environmental conditions.<sup>2</sup> We also tested to compare the effects of being customer oriented versus those of being competitor oriented under a range of market conditions. In this case, we discovered that resolving these theoretical issues yields several important implications that bear directly on marketing strategy in the global hotel market.<sup>3</sup>

To test the contingency aspect, that is, the degree to which a market orientation is affected by environmental factors, we

2. Studies supporting the contingency view include Kohli and Jaworsky (1990), Day and Wensley (1988), and Gatignon and Xuereb (1997). Studies arguing that market orientation works under all environmental conditions include Slater and Narver (1994, 1998).
3. Studies supporting the view that customer and competitor orientations are equally important components of a market orientation include Narver and Slater (1990) and Slater and Narver (1994). Peters and Austin (1985) and Deshpandé and Farley (1998) argued that customer orientation is paramount. Others have argued that a customer orientation and a competitor orientation are antithetical. These include Deshpandé, Farley, and Webster (1993) and Armstrong and Callopy (1996).

followed the lead of a recent study by testing the effectiveness of both a customer orientation and a competitor orientation for various market conditions at various levels of economic activity (see Fahy et al. 2000). Thus, we tested our hypotheses at the country level to reflect stages of economic development; we tested at the local market level to reflect local business conditions and resource availability; and we tested at the consumer level to reflect vagaries of customer demand. By conducting our study in this way, we were able to address all three research areas that we targeted: the effectiveness of a market orientation in various market conditions; the comparative effectiveness of a customer and a competitor orientation within a market orientation; and the effectiveness of a market orientation in a global marketplace (in our case, that of the hotel industry). The global hotel market is particularly advantageous to our research goals because of its diversity of economic, cultural, and other environmental conditions. Note that we also tested the effectiveness of interfunctional coordination, but only as a control variable. We focused primarily on customer and competitor orientation.

## The Study

We developed four sets of hypotheses to test the contingency view of market orientation. If this view is correct, no single corporate strategy for achieving a firm's benchmark performance goals or competitive advantage is universally effective under all market conditions (see, for example, Lawrence and Lorsch 1967; Ginsberg and Venkatraman 1985; Donaldson 2000). Instead, a firm should gain competitive advantage by matching its strategy to both external and internal environmental conditions. In our study we concentrated on external conditions (as reflected in our treatment of interfunctional coordination as a control

variable). George S. Day and Robin Wensley (1988), for example, argued that when market demand is predictable and the competitive environment is stable and concentrated, firms should channel their resources more toward a competitor orientation. In contrast, in a dynamic market with many competitors, highly segmented customers, and shifting entry barriers, firms should orient their strategy more in the direction of understanding their customer base.

We can make the logic of the contingency approach a little clearer by considering what is typically involved in creating a customer or competitor orientation within a firm. A customer orientation tends to facilitate differentiation in a market. The strategy is to gather information from and about a firm's customers, which is then disseminated throughout the firm to enable it to appeal to as many customer segments in its market as possible. A competitor orientation tends to achieve cost advantages for a firm as it gathers information on its competitors' business practices, enabling it to reduce costs through adjustments to its value chain. The contingency view is that environmental conditions that characterize a firm's market—especially pertaining to its customer base and competitive set—inevitably determine whether customer intelligence or competitor intelligence has a greater influence on the firm's ability to achieve a competitive advantage. As we have noted, we therefore formulated our hypotheses to reflect two sets of environmental differences, by looking at the market's stage of economic development, resource availability, and how demanding customers are; and then considering these factors at three levels of economic activity, namely, at the country, local, and consumer levels. Our hypotheses therefore test the effects of economic development, business conditions, resource availability, and customer demandingness.

We relied on standard United Nations classification of a country's stage of economic development, which turns on industrialization. The more industrialized a country is, the higher its level of economic development. The UN classifies countries like the United States, Japan, and the United Kingdom as developed or industrialized economies. Examples of industrializing or developing countries are Brazil, China, and Indonesia. The UN's distinctions match the division of countries into those that belong to the Organization for Economic Cooperation and Development (OECD)—the developed nations—and those that do not—the developing nations.

Firms are challenged in developing economies to offer their products at the lowest possible cost to customers, who typically have lower earning and buying power than their counterparts in developed economies. This would seem to recommend a competitor orientation so as to achieve a cost advantage in developing countries. By contrast, developed countries typically feature highly segmented customers with differentiated needs and satisfactions and considerable buying power, as well as a greater number and variety of competitors. This recommends a customer orientation both because meeting customer needs under such conditions means targeting products to narrower segments and also because in an environment with more competitors, it is more costly to allocate a firm's resources to gathering information about those competitors. We therefore hypothesized that the more developed an economy is, the stronger should be the effect of a customer orientation on a firm's performance. By contrast, the less developed an economy is, the stronger should be the effect of a competitor orientation on a firm's performance.

Turning to local business conditions, we note the broad variety of situations existing across the globe. Local business conditions

include the quality of the infrastructure, the political environment, the availability of value-chain partners, and customs and culture. Political instability, an unfamiliar legal system, and the absence of strategic factor markets can add up to poor local business conditions. Under such circumstances, a firm will often need to develop relationships based largely on personal ties and informal networks of acquaintance to make connections with local politicians and business leaders and thereby secure the institutional support it requires to do business (see, for example, Peng and Heath 1996; Peng and Luo 2000). This suggests that developing a competitor orientation would be an effective strategy because a firm is more likely to establish its own connections to institutional supports when it knows how and with whom its competitors do business. We therefore hypothesized that the poorer the local business conditions, the weaker should be the effect of a customer orientation on firm performance. By the same token, the poorer the local business conditions, the stronger should be the effect of a competitor orientation on firm performance.

Just as developing economies tend to feature poor business conditions, so do they tend to offer environments lacking such important resources as qualified employees, managerial talent, reliable suppliers, and adequate investors. Hotel firms venturing into the global market meet a wide range of situations characterized to some degree by resource scarcity. Where resources exist, they might be difficult to acquire because of local constraints and dependencies (see Pfeffer and Salancik 1978). This seems to recommend fostering a competitor orientation, because information about a firm's competitors in such a market might enable it to understand how other firms configure their value chains and identify resources and procurement approaches that are especially critical to strong performance in that market.

By contrast, there would seem to be less value in developing a customer orientation in such a market, because without access to critical resources, customer information is of little use. Thus, under these conditions, a competitor orientation would seem to offer more value than a customer orientation. We therefore hypothesized that the higher the resource availability, the stronger should be the effect of a customer orientation on firm performance. At the same time, the lower the resource availability, the stronger should be the effect of a competitor orientation on firm performance.

Finally, we considered customer demandingness as a factor in determining the effectiveness of a customer versus a competitor orientation. Customer demandingness is the extent to which customers require superior quality or specific types of product and service performance to be satisfied with a firm's offerings. Demanding customers want greater benefits from the products and services they buy and are therefore more finely attuned to subtle differences within a product category. A firm facing a market featuring high levels of customer demandingness needs to tailor its offerings to highly specific and heterogeneous customer demands (see, for example, Li and Calantone 1998; Monroe 1990). Here a customer orientation would seem to confer greater value to a firm than a competitor orientation. With an effectively established customer orientation, a firm in such a market can not only understand how to satisfy highly specific, specialized customer requirements, but also anticipate changing requirements to adjust its approach in the future. By contrast, a competitor orientation, while perhaps still offering some value to a firm in such a market, is less likely to return as much value as a customer orientation. A firm

operating with a competitor orientation is likely to attempt to emulate what it perceives as successful rivals without critically evaluating their marketing strategies, which may end up falling short if they fail to anticipate changing demand. We therefore hypothesized that the more demanding the customers, the stronger should be the effect of a customer orientation on firm performance. Conversely, the less demanding the customers, the weaker should be the effect of a competitor orientation on firm performance.

### The Sample

Given that our unit of analysis was individual, local hotels, we collected our data from each local hotel general manager. We obtained our sample from the Global Hoteliers Club, which publishes the trade journal *Hotels* (a controlled-circulation publication that is free for members). We sent 558 surveys to hotel general or senior managers who were club members and asked them to report on their individual hotels. We confirmed that these managers knew all the relevant information about their individual hotel's strategic orientation, performance benchmarks, and surrounding environment. To increase the response rate, we included a cover letter from the CEO of the Global Hoteliers Club with the questionnaire. The response rate (32.9 percent) is quite respectable compared with those achieved for similar studies using international samples. We then conducted standard checks on nonresponse bias and found it negligible.<sup>4</sup>

The local hotel managers we surveyed included both expatriates and nationals, depending on each hotel's practice. General managers constituted more than two-thirds of the sample; the others were senior managers.

4. See Zhou et al. (2007, 309) for more details on the tests for nonresponse bias.

The managers in our sample brought to the survey a rich storehouse of experience with hotel management and operations. In addition, most of the respondents have a college degree, indicating similar educational experiences involving hotel management schools.<sup>5</sup> As Global Hoteliers Club members, they are generally fluent in English (the *lingua franca* of the hotel industry), but many speak multiple languages. Most have had standard hotel management training and follow generally accepted industry practices for managing and marketing their hotels. It is interesting to note that such managers across the globe exhibit a similar pattern in their answers to survey questions.<sup>6</sup>

At the time of the study, the hotels in the sample on average employed 433 people, offered 365 rooms for sale, and had been operating for almost twenty-three years. Most of the hotels in our sample were independent, but quite a few belonged to hotel chains. In total, they represented thirty-seven brands (see Exhibit 1). The parent companies of the chain hotels averaged nearly thirty years of doing business and were affiliated with 328 hotels worldwide, generating nearly 60 percent of their revenues from international properties. Finally, the hotels in our sample represented fifty-six countries (in twenty-six OECD nations and thirty non-OECD nations) across six continents, providing us with a variety of local market conditions, and again showing why our findings yielded both theoretical and practical implications.<sup>7</sup>

### Exhibit 1:

#### Brands Represented in the Study

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ANA  
 Caesar Park  
 Camino Real  
 Conrad  
 Crowne Plaza  
 Disney  
 Fairmont  
 Four Seasons  
 Hilton  
 Holiday Inn  
 Hyatt  
 Inter-Continental  
 Kempinski  
 Mandarin Oriental  
 Marriott  
 Melia  
 Meridien  
 Movenpick  
 Nikko  
 Novotel  
 Oberoi  
 Okura  
 Omni  
 Pannonia  
 Pan Pacific  
 Peninsula  
 Regent  
 Renaissance  
 Ritz-Carlton  
 Rockresorts  
 Shangri-La  
 Sheraton  
 Sonesta  
 Taj  
 Traders  
 Westin  
 Wyndham

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5. See Zhou et al. (2007) for statistical details pertaining to the sample as well as information about measurement nonequivalence.

6. See Dawar and Parker (1994) for a cross-cultural study reflecting this fact.

7. In the sample, OECD markets are Australia, Austria, Belgium, Canada, the Czech Republic, Denmark, Finland, France, Germany, Greece, Ireland, Italy, Japan, Mexico, the Netherlands, New Zealand, Poland, Portugal, Singapore, South Korea, Spain, Sweden, Switzerland, Turkey, the United Kingdom, and the United States. Non-OECD markets are Aruba, Azerbaijan, Bahrain, Benin, Botswana, Brazil, Cambodia, China, Egypt, India, Indonesia, Kenya, Malaysia, Mauritius, Morocco, Myanmar, Oman, Pakistan, Peru, the Philippines, Saudi Arabia, Senegal, South Africa, Sri Lanka, Thailand, Uganda, Vietnam, West Africa, the West Indies, and Zaire. See Zhou et al. (2007) for further statistical details.

## Measures

We adapted most of our measures from previous work, following a review of relevant literature and informal discussions with industry practitioners, although we also developed some measures specifically for this study. We pretested questionnaire items on a sample of thirty international hotel general managers attending Cornell University's executive development program. On the basis of their responses, we revised a few questionnaire items for greater clarity. Our measures follow:

- *Market orientation*: Comprising customer orientation and competitor orientation, with interfunctional coordination included as a control variable.<sup>8</sup>
- *Organizational performance*: Comprising occupancy, gross operating profit, and market share (see Moorman and Rust 1999).
- *Economic development*: The stage of economic development of the market in which a given property was located, based on OECD classification, with OECD members coded as developed and non-OECD members as developing markets.
- *Local market environment*: Comprising four main factors: customer demand-iness, local business conditions, resource availability, and availability of local investors (Peng and Heath 1996).

Having chosen our measures, we then tested them, confirming their statistical validity and reliability.<sup>9</sup> We also selected the following control variables to account for influences on performance beyond

those that are directly involved in the hypotheses: economic growth, government restrictions, entry barriers, competitive intensity, firm size, and innovation orientation. Finally, we also considered in the analysis of our measures the possibility of interaction, that is, the effects of adopting a market orientation combined with various environmental factors. We eventually developed seven statistical models to obtain our final results.<sup>10</sup>

## Analysis and Results

Our results show generally that, as expected, a customer orientation has a greater effect on hotels' performance than does a competitor orientation (see Day and Nedungadi 1994). We say this because the main effect of a customer orientation on performance is statistically positive and significant across all but one of the models, whereas neither the effects of a competitor orientation nor interfunctional coordination is significant for any model. As we now summarize the results, we find almost all of our hypotheses to be confirmed, as it appears that the more developed the market's economy, the more effective is a customer orientation. Conversely, a competitor orientation works better in a developing economy.

Our first set of hypotheses pertains to this last point about stage of economic development. Both of these were confirmed—in one case, by a positive and significant interaction between a customer orientation; and in the other, membership in the OECD but a negative and significant interaction for a competitor orientation and OECD status. Thus, a customer orientation works best in highly developed

8. Both measures were adapted following Narver and Slater (1990).

9. Again, see Zhou et al. (2007) for detailed information about the measures, the statistical tests we performed, and the control variables we used.

10. See Zhou et al. (2007) for further details about such statistical issues as multicollinearity as well as detailed statistical results pertaining to each of the seven models.

economies, where a competitor orientation provides little advantage.

The second set of hypotheses looks at the possible effects of local business conditions on performance. In this instance, our study shows that interaction between good local business conditions and a customer orientation is strong, while a competitor orientation is less effective when local business conditions are good. Thus, our study confirms both of the hypotheses related to local business conditions.

The third set of hypotheses addresses the extent to which resource and investor availability moderates the effects on performance of a customer or competitor orientation. The results follow in line with the others that we have reported here. In a resource-rich market environment, a customer orientation provides for stronger performance than does a competitor orientation. As resources become scarcer, however, the rationale for switching to a competitor orientation grows stronger.

Finally, our fourth set of hypotheses suggests that customer demand is addressed most effectively with a customer orientation. Our results on this matter were mixed, although our key expectation was confirmed. Interaction between a customer orientation and high customer demandingness is shown to be positive and significant, but there was no significant correlation shown for a competitor orientation and customer demandingness. Thus, what we expected—a negative effect of a competitor orientation in a highly demanding market—did not materialize in this study.

We further confirmed the results for our hypotheses by subdividing our main measures to focus on the effects of a range of

conditions pertaining to our main environmental variables.<sup>11</sup> Here again all the hypotheses except for the one pertaining to the effects of a competitor orientation on performance in a demanding market were confirmed by the results. A firm with a customer orientation can expect better performance in developed markets and in markets characterized by good local business conditions, high levels of resource availability, and highly demanding customers. Having a customer orientation does not, however, have a significant impact in markets where those environmental conditions do not exist. Conversely, as we expected, a firm with a competitor orientation should expect better performance in precisely those markets where most of the conditions favorable to the impact of a customer orientation do not obtain, that is, less developed markets characterized by poor local business conditions and resource scarcity. Again, though, these additional analyses suggest that a competitor orientation has no effect on performance regardless of how demanding a market's consumers might be.

It is worth mentioning a final point. It appears from these additional analyses that adopting a competitor orientation may actually be detrimental to a firm's performance in a market environment with high levels of investor availability (apart from other resources). This is likely because investors find markets attractive in which other resources are already handy, especially where the government's regulatory imprint is light or supportive and in other respects local business conditions are good. As we have noted, a competitor orientation should support a firm in gaining access to resources, becoming familiar with government restrictions, and making

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11. In this, we followed the procedure devised in Jaccard, Turrisi, and Wan (1990).

useful connections with other businesses and parties in a local market. In a market where these advantages are easily obtained, a firm's investment in a competitor orientation may simply not pay off, as the cost of the resources committed to establishing such an orientation exceeds the benefits obtained.

## Managerial Implications

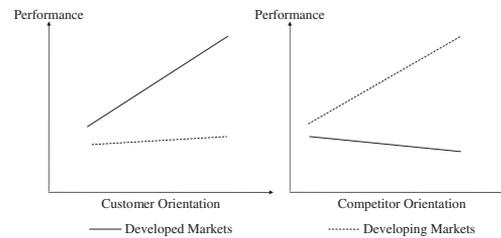
We were able to use the global hotel market, with its wide range of environmental conditions, to contribute to our theoretical understanding of a market orientation. In particular, we believe that our results support the contingency approach to the study of market orientation, as the effectiveness of such a strategic posture (and internal business culture) varies with variations in environmental factors.

Consider first the relative level of development within which a firm will have to operate as it moves into a foreign country. Here the results are clear. A firm moving into a developed or OECD market can achieve a competitive advantage if it establishes a customer orientation. If a firm is moving into a developing or non-OECD market, on the other hand, it should establish a competitor orientation. These two components of a market orientation both yield valuable information that, in keeping with the goals of a market orientation, should be disseminated throughout an organization to inform the policies and practices of all relevant departments. But the type of information that is typically provided through a customer orientation seems not to benefit a firm in a non-OECD country, while the reverse is true for the type of information that is typically provided through a competitor orientation. In Exhibit 2, we show in simple graphic terms how a customer orientation and a

competitor orientation line up with stages of economic development.

### Exhibit 2:

#### Customer Orientation or Competitor Orientation: Which Has the Higher Payoff?



Looking at the local market level, our results confirm the conventional wisdom that markets in developed countries feature better business conditions than do their counterparts in developing countries. Accordingly, firms moving into markets characterized by good local business conditions should orient themselves toward learning about and responding to customer needs, while firms moving into markets characterized by poor local business conditions should orient themselves toward learning how their key competitors operate in such markets. In a stable market, a firm does not need specialized knowledge about idiosyncratic local customs or important local agents to succeed where these elements of success are readily available. In developing markets, a firm cannot acquire the resources or institutional support that it needs on the basis of information about the customer base.

Finally, then, a firm entering a market characterized by a highly demanding customer base, again often a correlate of a highly developed economy, should establish a customer orientation, especially one that is

attuned to indications of future demand. Such a strategic orientation enables a firm operating in a developed economy to anticipate how its customers might respond to future offerings in terms of amenities and price points. Here, a competitor orientation might not hurt performance so much as it will draw corporate resources away from collecting and disseminating the type of customer intelligence needed in such a market. If your customers are highly demanding, you had better find out what they want now and what they will want tomorrow.

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