

**The Offering, E-business, and
Market Orientation
– Musings from a case study**

15.575 Term Paper

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Introduction

As companies today face increased competition, through e.g. globalisation and heightened customer demands, they need to become more in tune with the market. Traditionally many companies exhibited traits that could be said to be characteristics of a product-orientated company, meaning that they emphasised technological advancements, functionality and internal competences (see e.g. McNaughton et al., 2001). In essence companies need to become more market oriented and aware of customer needs in order to prosper (see e.g. Narver and Slater, 1990; Kohli and Jaworski, 1990).

An increased importance of, and interest in (see e.g. Harris et al., 2001), market orientation manifest itself in various ways and one of the most interesting expressions is Normann's (2001) notion of the *total offering*. Here it is argued, among other things, that the customer should be an integral part when developing an offering (a collection of products and services to fulfil a customer's needs). Most notably the customer can be a co-producer of the value delivered by the offering (cf. IKEA). Continuing it is interesting to see that in the concept of value constellation (Normann, 2001) the traditional roles of sequentially value adding producers are breaking up and the focus is on building up constellations of producers of various products and services and offer customers the total range of competence and value within this constellation (this constellation can also exist within companies). If this is to function properly companies, and business units, need to cooperate and coordinate to a much greater extent than before. E-business, the Internet and IT have great potential to become enablers for this.

The same reasoning, as we have touched upon, can be held in the market orientation realm since becoming market oriented revolves around the ability to gather, analyse and distribute information (see e.g. Narver and Slater, 1990; Matsuno and Mentzer, 2001). E-business, the Internet, and IT have the possibility to greatly simplify and enable companies' efforts in moving towards market orientation. Another interesting area is the emerging field of interactive marketing where the interactivity and possibility to customise and personalise marketing efforts and market communication

opens new ways (see eg Shapiro and Varian, 1998; Hagel, 1999) for connecting to customers and becoming market oriented.

In order for a company to take full advantage, and hence maximise performance, of a market oriented approach (a change) there need be a fit and complementary adjustments between the elements that make up a company, such as structure, processes, culture, and IT (Slater and Narver, 1995; Deshpande and Webster, 1989; Milgrom and Roberts, 1990). It might also be close at hand to limit market orientation to applying only to the marketing department, but this is not the case. Market orientation instead demands integration of all functions within an organisation (Kumar et al, 2001; Cadogan and Diamantopoulos, 1995) hence it might be useful to view a shift towards market orientation from a holistic perspective.

Here I will alternate between theory and empirical data in an attempt to show how IT (in the form of an e-business solution) and the offering concept are tools that greatly can help companies in managing their transition into becoming more market oriented.

Empirical background – MediumService

Recently the level of service and quality as well as the very existence of MediumService (MedServ) had been questioned. Problems emphasised included difficulty finding what was offered (due to the amount of products, over 3,600, and lack of comprehensive information), poor quality, and bad delivery accuracy. Furthermore, the cost structure (and cost awareness) as well as the cost of the products and services have been questioned. As seen these were rather grave issues.

In an attempt to remedy this MedServ set out on an ambitious and brave change journey, actually called “Resan” (Swedish for a, or the, Journey). This became the starting shot for a 2+ year effort involving more or less the entire organisation as well as customers and suppliers.

Big picture

Reasons for the change that was initiated at MedServ were, as hinted above, multifaceted. The perhaps most influential was that as a organisation they were not cost efficient enough and did not offer the level of service and product assortment that customers needed and asked for. For example prices were unaligned with costs (in

some products) and delivery times were often long (and also uneven) plus it was difficult to get an overview of existing products. Less prominent arguments for heading into the change process included a somewhat ambiguous relationship and reputation with customer organisations. A feeling manifested in individuals within customer organisations perceiving MedServ as a reliable, value adding but cost inefficient, reactive organisation with long delivery times.

The change that I am referring to is the shift towards a more market oriented and, hence, a more customer oriented organisation. Since this demanded a rather comprehensive approach that include changes in many areas it can be characterised as a quantum change, ie concurrent changes in many different areas of the company (cf Miller and Friesen, 1984).

The offering concept

Theoretical background

An offering is not only made up of a product or service offered by a company to the market. In a wider meaning the offering concept, as discussed by Normann (2001), can also include the cooperation and integration of several actors from both outside and within the same domain, or competitive neighbourhood, in what is termed value constellations. Indeed, Normann and others claim that the Porterian view of value chains is too limited and needs to be augmented to include a wider array of different actors and activities (see also Stabell and Fjeldstad, 1998).

Recent discussions on the offering concept, and especially in conjunction with the value concept, argues that companies (or, indeed, constellations of companies or production units within one company) need to be able to fulfil larger shares of customers needs, stated in other words, the various offerings must be more “specific” and it is not sufficient just to produce standardised products or services. Instead companies must be able to customise their products to a much greater extent (Normann, 2001).

Normann (2001) argues that companies must increase their value offers and devise what he calls more total offerings. These total offerings are difficult for companies to create by themselves and instead they often have to cooperate with other actors to come up with profitable and attractive offerings. In terms of bundling, the concept expands and can also include several distinct business actors (that can exist within the same company as business units).

With the market orientation focus the offering takes on a more prominent role since it opens up new ways of communicating, and interacting, with the customers. By extending the offering the company attempts to tie customers closer to their products and services; to fulfil a larger part of their customers’ needs (capture a larger share of the total value). One example of this is Hewlett-Packard that has stated a goal to assemble HP’s “*vast arsenal*” into package deals (bundles or offerings) for important corporate customers in an attempt to become more competitive and value adding (Business Week, 2002-12-23).

Here IT and e-business can come into play and provide eg information and other features making it easier to offer customers exactly what they need and want.

Empirical discussion

The first piece of the MedServ change puzzle, during “*Resan*”, to be laid and the “foundation” for many of the coming changes was indeed the notion of the offering. It was a strategic initiative (with operational implications) made to approach customers in a quite different way. By doing this MedServ changed how it perceived its role in relation to its customers. In a sense MedServ moved from a passive creator of products to an active creator of value. That is they started to try to be more proactive in relation to customer demands and to capture more of the total value of its customers by offering solutions or functions instead of single products. As a tool or method in the process of becoming more market oriented the offering concept is very interesting and it is not less interesting when considering that it, in this case, can be perceived as the foundation for the entire change process. Earlier MedServ had a very fragmented approach where each production unit more or less worked in isolation and provided its products and services without much consideration or cooperation for other areas. This of course produced duplication of work and made it difficult for customers to order. The offering concept (in tandem with the e-business solution) forced MedServ to realign their organisation and become more coordinated if complete functions (offerings) were to be delivered.

This initiative, the offering, forced the company to change many other aspects and also to find new solutions and arrangement to fit (or complement) the new offering concept. If the offering idea is to be successful a company have to rearrange its product base in order to be able to deliver value-adding offerings. It also seems to be pivotal for the company to think in terms of bundling if cost efficiencies and scale benefits are to be achieved. In a way this is closing in on the idea of customisation and modularisation since offerings let customers, within limits, pick and choose certain attributes (modules) that their offering should consist of and subsequently only pay for that selection (cf eg Dell).

It was beneficial for MedServ to consider the offering as a key concept and as the catalyst and driver for many subsequent changes when moving towards a more market

oriented business model. It also seems advantageous to use the offering as a tool in business development and as a way to reinvent how a company perceive themselves and their customers. With the offering concept (and other components as well, such as the e-business solution) MedServ has created a roadmap for how to move towards a more market oriented approach. The main characteristic of this roadmap, it could be argued, is the offering and the fact that it “pulls”, or acts as the catalyst for, the other changes.

E-business and IT issues

Implementing a comprehensive e-business solution was not entirely uncontroversial. MedServ was a rather bureaucratic and traditional organisation where employees took (and still do) pride in knowing their customers by name and taking their orders over the phones, making special arrangements etc (thus creating excess costs and bypassing set standards). The e-business solution could be characterised as an e-marketplace where customers could browse and order all products and services that MedServ offered. Providing aggregated order information with drill-down possibilities and e-billing were other functions of the system. Internally the system also worked as a rudimentary production system that distributed customer orders to the relevant production units and provided much needed data on customers and the orders.

There are a number of issues that employing an e-marketplace needs to be discussed if the benefits (potential and realised), the rationale behind the decision, and the problems that MedServ faced are to be properly understood.

Search costs

High search cost is a very real cost that must be considered when interacting with customers. In the case reported here one of the major problem areas identified was the difficulty (and hence high costs) of finding what products that was offered and also understand what was offered. Bakos (1997) states that information systems can serve as intermediaries between buyers and sellers and lower buyers' search costs when searching for product offerings and prices of the same offerings. Furthermore it is argued that with an information system it is easier to separate price information from product (quality) information. Quality information is information on eg product attributes and delivery that helps a buyer understand what the product actually is (Bakos, 1997; Lynch and Ariely, 2000).

By using the Internet with increasing multimedia capabilities etc it is also possible to achieve both richness and reach of information (see eg Bakos, 1997; Evans and Wurster, 1997) not possible with telephones or static printed material.

Although the situation in the empirical data is somewhat different from the Bakos (1997) situation, most of the results are, in my opinion, applicable here. More efficient transactions and more information about customers' behaviour are other benefits, for the seller, which have relevance in this setting.

IT, productivity, and complements

There has been an ongoing debate in literature regarding how IT has influenced businesses in general and productivity in particular. The general consensus seems to be that IT does matter (perhaps with the exception of Carr, 2003) but the question instead becomes how much. Some researchers (e.g. Gordon, 2000; Oliner and Sichel, 2000) argue that the impact of IT is not as profound as pointed out by e.g. Jorgenson (2000) and Brynjolfsson et al (2002). For this paper this distinction is not that important (although this author leans towards the stance taken by the latter) but rather the substantive argument that investments in IT needs to be complemented by investments (and changes) in other areas, most notably organisation structure, job roles, and work processes (see e.g. Brynjolfsson et al, 2002; Bresnahan et al, 2002) if the full potential of IT is to be realised.

Another issue to take into consideration is the apparent need for higher educated employees as the level of computerisation grows in an industry. This is discussed by Autor et al (2003) that find that as computerization increases in an industry demand for so-called routine tasks goes down and also the opposite, that demand for non-routine task goes up. That is computerization, and associated organisation changes, change the nature of the various job roles in a firm. This implies that a more skilled work force is needed and hence there is a need for either hiring new people or train/educate the existing work force.

Bundling

With the increased interest in IT and the digitalisation of a variety of products (e.g. books, music and software) the terms bundling and unbundling surfaced to a larger audience (see e.g. Bakos and Brynjolfsson, 1999; 2000). Newspapers for example can be bundled and unbundled in an almost infinite number of ways depending on the preferences of the reader. However, also more "physical" products such as cars have

traditionally exhibited a certain degree of bundling. Volvo for example have made it possible for car buyers to include insurance etc in their purchase through their, Volvo's, own insurance company.

There are many benefits to bundling, including cost savings and complementarities among the parts within a bundle (Eppen et al, 1991). Cost savings can eg come through coordination and better utilisation of resources. Offering several complementary products as a bundle can greatly increase the value a customer place on that bundle, which can be higher than the sum of each product separately.

Other interesting, potential, results due to bundling are the deterring of potential entries (Nalebuff, 2003), and the possibility to price discriminate (Bakos and Brynjolfsson, 1999).

Complementarities and fit

It is often argued that if an organisation is to be successful, be it through financial performance or non-profit ideals, there needs to be a fit, consonance, or congruence, between the elements that constitute that organisation (see eg Miles and Snow, 1994). Galbraith and Nathanson (1978), for example, states that there *'must be consistency between strategy and all elements of the structure'*. Having a fit within the organisation is not enough though; an organisation must also acquire a fit with the environment as well to be successful, to be a *'high performer'* (Lawrence and Lorsch, 1969).

There exists criticism directed towards the notion of fit, perhaps not towards the very concept but rather towards an over-emphasis on it. It can be argued that misfit in an organisation (between elements or between the company and the external environment) can be beneficial in certain aspects. Exhibiting too much fit can make a company complacent and less dynamic. Instead a certain degree of misfit is necessary to force and challenge a company to improve and seek new ways to solve problems. For example, if there is a degree of misfit between a company's products and the market, the company is forced to probe and understand that market better in order to increase performance. Too much fit, it is argued, can hamper an organisation and make it more difficult for it to change elements (see eg Miller, 1992) since they are perceived to reinforce each other already and the company can become somewhat

stale and not seek improvements. There is also another problem with the fit concept; it is hard to measure. When has an organisation achieved fit? Is there a difference between short-term fit and long-term fit (Galbraith and Nathanson, 1978)?

A notion similar to that of fit and that perhaps can help us approach the area in another way is the idea of complementarities. As we have seen earlier complementarities play an important role if the full potential of IT is to be realised (see eg Brynjolfsson et al, 2002). Milgrom and Roberts (1990) discuss the manufacturing industry and state that the new ways of manufacturing (what they call the factory of the future) and increased customer demands force companies not only to change their strategies or their machinery but rather a multitude of things to be successful. It is not a matter of small adjustments made incrementally but rather revolutionary and closely coordinated changes affecting the whole range of the firm's activities. The way to start this is by doing "*a complete overhaul of the company's strategy*" (p 513). It is worth to note that the complement concept to Milgrom and Roberts has the slightly broader meaning of relations among groups of activities rather than the more traditional sense of relations between pairs of input. Furthermore, and very close to the fit discussion above, is the idea that complementarities exist also between different "functional" areas such as between manufacturing, marketing, engineering, and organization (Milgrom and Roberts, 1990).

Empirical thoughts/connections

Although the big e-ification effort was to develop and launch an e-marketplace for the products and services offered, the first attempt was to e-ify (ie web enable or put on the intranet) offering and product data sheets. This operative initiative had to be made due to the decision to use offerings but it also forced MedServ to re-evaluate and systemise the products to be offered and subsequently the offerings. It enabled them to structure their product portfolio and also to productify and commercialise products and services.

According to Narver and Slater (1993) gathering, analysing and distributing information is one of the main tasks of becoming market oriented. Internet technologies employed by MedServ has enabled this information management and hence laid a foundation for becoming more market oriented. One of the main aims

(for the change) was to increase transparency, ie make it easier for customers to see what MedServ offered, how much it costs and how it would be delivered, ie lower search costs for both price and product (quality) information (see eg Bakos, 1997; Lynch and Ariely, 2000). The e-marketplace provided the abilities to do this in a simple and straightforward manner through the web interface. In parallel to the external transparency issue the e-marketplace also increased internal transparency in that it had become easier for MedServ to acquire information and see eg costs, ordering information and statistics.

Another dimension was the increased amount, and simplification (in some aspects), of communication with customers. The e-marketplace enables customers to browse the entire product range on-line, to (of course) order on-line, and to see purchasing statistics, various contract details and their account status. This does not just simplify things for the customer but it also frees up valuable time for MedServ employees (due to eg less time answering customer inquiries) that can be used to perform more important (and value adding) activities such as eg product development. At the same time it decreases administrative work within MedServ since orders are placed directly in the system and are then automatically relayed to the production units where they can be accessed on-line and administered on-line thus minimising paper work. In addition to this the customer also performs some of MedServ's work when they place orders themselves and hence they effectively took over some of the ordering process (although not quite as good as the banking industry where they got their customers to pay to take over tasks previously done by the bank!). The fact that processes at the customer change as well if a supplier introduces an e-business solution is interesting. That is, we have complementarities (or a need for fit) existing outside the focal firm. This is an interesting aspect which is hard to find in literature.

Developing an e-commerce solution was not understood to be the solution in the beginning. Technological advances and the general trend (this took place during the so-called IT hype) made MedServ aware of this possibility (ie environmental "pressure"). IT was seen as an enabler, ie a way to operationalise and make the new strategic direction possible. Interestingly enough, this dawned on the organisation step by step as they learned more and more about the possibilities of the technology but also as they became familiar with what the new direction actually meant. The use of

this new technology also highlighted other needed changes such as an increased process focus (cf eg Brynjolfsson et al, 2002).

The real eye-opener for the need for proper and well-defined processes was, as hinted, the e-marketplace. During development of the system MedServ launched a trial version with only limited functionality and this made them realise that in order to achieve the desired functionality they had to pay much more attentions to the processes within the organisation. That is, since this new market channel opened new possibilities MedServ needed to map, evaluate, and develop the processes that interacted with the e-marketplace. Obviously this also worked the other way around in that as MedServ learnt more about their processes and how to develop them they also saw the need to realign and develop the e-business solution.

From an organisational structure perspective MedServ reorganised more or less their whole organisation from a very traditional functional (hierarchical) structure to a much more process oriented, team-based approach. This structure was, by and large, driven by the offering concept in tandem with the e-business solution. The introduction of the e-business solution emphasised certain roles and made, particularly, the processes very visible forcing MedServ to rethink and redesign some issues in order to achieve the full potential of both the e-business solution as well as the structure (the people).

As the e-marketplace took shape new ways to take advantage of this new technology emerged. For example, it was now possible to have longer opening hours (24/7), use the gathered data (such as ordered products and order times etc) for business intelligence purposes (eg if a customer orders pencils from MedServ and not erasers the question becomes whether we can offer that customer erasers as well), and the possibility for customers to have customised views with approved products or most frequent buys as headings. As we can see this opens up entirely new ways of how to handle various activities and also to simplify the processes and operations for both supplier and buyer.

One problem overlooked by, especially top management, was the need to have a rather high degree of computer literacy in the organisation in order to reap all the benefits from an e-business solution. In this case most employees did not have this, thus creating a problem. MedServ was forced to engage in rather extensive education

activities both internally and externally (ie customers) to pave the way for the e-marketplace but also for other changes as well (cf Brynjolfsson et al, 2002; Autor et al, 2003).

Finally, the e-marketplace provides a platform for expansion both when it comes to new offerings and products but also in terms of new ways to approach eg supplier through e-procurement and customers on a more global basis.

Holistic approach

An interesting aspect, that has much support in literature, is the quantum attributes featured in the change (cf Miller and Friesen, 1984). As we can see in the MedServ case the change towards market orientation seems to require a holistic approach with changes (and subsequent aligning changes) in many areas of the company. This is also close to the revolutionary notion forwarded by eg Tushman and Romanelli (1985). However, at the same time we can see traits of a more incremental approach in some areas and thus we end up with a combination of revolution and evolution language that best describe this change.

Equally interesting is the notion that all changes cannot be predicted and that as a company learns it comes up with new solutions and new changes. These new changes require, in turn, new aligning changes (see above) thus creating a ripple-like pattern of changes within the company. These new unpredicted changes seem to be as likely to emerge at the strategic as at the operational level.

Conclusions

The Fit

When looking at the MedServ case one of the things that stands out is how they, during the course of the reorientation, induce changes in some areas and are subsequently forced to make realignment (or introduce complementary actions or activities) changes in other areas in order to achieve a fit.. For example the notion of the offering, which was introduced very early in the process, demanded a better product structure and also better customer contacts in order to understand how and what customers used and wanted from the offerings. Due to this they had to introduce a new organisation and a new product structure.

This misfit between components of a business model creates a creative need to change within the organisation (eg the offering created a need to change the product structure and also induced a need for something like the e-business solution) and thus, in a way, drives the company forwards and upwards. Without this misfit the company could become stale and decline could set in (see eg Miller, 1992; 1993).

When discussing change and in reference to the holistic framework (such as Mintzberg's configurations, Miller's archetypes, Milgrom and Roberts complementarities, or Brynjolfsson's matrix of change) what is interesting is the fit necessary not only on the strategic and operational level but also between these two. Creating a market-oriented company required MedServ to perform more market activities such as having more professional customer contacts and to introduce clearer and easier channels to the market. These strategic (market) position initiatives needed to fit with the operative platforms within the company if they were to have an impact. For example, to reach the goal of introducing better ways for the customer to contact MedServ they needed to introduce the e-business solution as an operative platform for this.

The offering

One of the main aims of the change was that it would be easier for customers to reach, understand and subsequently order what they needed. The very foundation for this was the notion of the offering. Bundling different products and services into “total offerings” (see eg Normann, 2001) meant that it was easier for customers to order complete functions with associated items in one order (instead of the previous multiple orders), ie many different production units formed constellations that together produced what the customer had ordered. This was fundamentally different from the earlier departmental way of thinking and acting.

As a tool the offering concept can be very helpful in the process of becoming market orientated since it forces a company to better understand customers and their needs, the very essence of market orientation. In order to create complete (total) offerings that are attractive and value adding to customers a company needs to collect information and analyse this information (cf Kohli and Jaworski, 1990). Another interesting dimension is that the offering, in a way, initiated and “pulled” the change in that once the decision to use offerings was taken (very early in the process) this necessitated a number of other changes and thus acted like a catalyst for the reorientation.

The value that a total offering adds is in that it packages, or bundles, a number of products and services into a package, or offering, which takes care of, or fulfil, a greater need for a customer if compared to the individual product or service (see eg Normann, 2001; Stremersch and Tellis, 2002). This was, by some customers, seen as a great advantage, the structuring of MedServ’s products, a structuring of their portfolio of products into more easily communicated and understandable offerings.

Another value adding benefit is that the customer might feel that he can (uniquely) create his own products (customisation) although MedServ has standardised offerings with modularisation characteristics (cf Dell’s online strategy). In a sense MedServ moved from being a passive creator of products to being an active creator of value. That is it starts trying to be proactive in relation to customer demands and it tries to capture more of the total value of its customers by offering solutions or functions instead of single products.

IT – an integral part

A company that wants to become more market oriented needs to gather, analyse and distribute an increasing amount of information about both customers and competitors (see eg Kohli and Jaworski, 1990). It also needs to find new ways to maintain contact with customers and to tie them closer. IT and various e-business solutions can be of great help in this endeavour. Establishing an e-business platform is a good way to both create easier contact channels to customers and for creating new, and better, information processing abilities. The solution has also, in some cases, decreased customers' costs by decreasing search time and time spent doing the actual ordering. It has also increased orders of some items that prior to the change was forgotten or overlooked.

As seen in the MedServ case an e-business solution (the e-marketplace) can be a very important player in the process of becoming more market oriented. The significance of the solution in rolling out the offering concept should be noted. It seems as if the offering concept is well suited to be rolled out and used through an e-business solution. Especially since the offering is a combination of various items and that the e-marketplace directly relays orders to the appropriate production unit thereby minimising administrative work and thus overhead costs.

Particularly interesting is the fact that the e-marketplace emphasised several other issues that needed consideration. There is evidence that this decision (change) necessitated other realigning changes, eg the process focus, if full advantage of the solution were to be had. Also, as both the organisation and the solution matured, new ways of taking advantage of the marketplace and the technology emerged. Extracting statistical information, creating production orders, having better billing, and getting aggregated information were some of the new ways to use the solution. This learning aspect is interesting and ought to be further investigated. The role played by the new technology as an enabler for new ways to approach various situations and to reap benefits not previously understood is an important characteristic of the e-marketplace in the MedServ case.

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