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Market-Driven Management and Intangible Assets in Global Television Set Manufacturers

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Abstract

The television set industry is a global sector where the most competitive companies are market-driven. Their competitive advantage is based not only on their ability to innovate products but also on their capability to develop and strengthen intangible assets, such as corporate culture, brand image and relationships between organisations.

Keywords: Television Set Industry; Market Driven Management; Competitiveness; Intangible Assets

1. Globalisation in the Television Set Sector

The consumer electronics sector is a global sector: companies are strongly globalised (in both manufacturing and marketing activities), the technology is practically standardised and familiar to all the companies, and consumers tend to be similar in all countries. In spite of this, the 'global nature' of this market also depends on the strong *global inter-dependence* – occasionally to the point of overlapping – between the consumer electronics sector and other sectors such as telecommunications and information technology. If on one hand, this contamination between sectors makes competition dynamics more complex, on the other it offers companies new opportunities for growth, as a result of shared knowledge that is heterogeneous but complementary, able to raise the level of the technological expertise and of the organisational and managerial solutions of individual companies.

The sector has changed significantly in recent decades, certainly as a result of the technological innovation of manufacturing processes and products, but also of the process of concentration.

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□ *The process of concentration that has characterized the sector began back in the early 1980s, but speeded up significantly in the Nineties with the development of multinationals from East Asia (like Goldstar-LG and Samsung) and, in the 21st century, with the large Chinese and Indian companies. This has significantly modified the degree of competition, forcing companies to continuously find new ways to deal with the competitive dynamics of this global industry.*

Today the market is a differentiated and very dynamic oligopoly, where the leading companies wrestle to maintain their positions and, whenever possible, to win market share (even temporarily) from the competition. This market is controlled by a few multinationals with global brands (e.g. Sony, Sharp, Panasonic, LG, Samsung and Philips), which are able to orient consumers' tastes and determine the innovation rate of products. We should however point out that there is a certain 'interchangeability' of products of a similar quality, especially in view of the fact that the technology is practically standardised for all products, at given levels of performance and options for the television set.

Unlike other industrial sectors, consumer electronics does not seem to have been affected by the current economic crisis; in fact, like cell phones, computers, digital cameras and video recorders, television sets (liquid crystal, plasma and the latest LED systems) all record a relative increase in sales. This is due in part to the promotional strategies implemented by manufacturers, often in collaboration with the large retail chains specialised in electronic goods. Generally speaking, it appears that global products – differentiated to a certain extent in each country, with a homogeneous global brand image and consumer behaviour, and subject to targeted price variations – are able to resist the current consumption crisis. In this regard we should point out that 'sales of goods with a global market and a Euro/Dollar exchange that has been weak for many months, resulting in ever-lower selling prices, continue to grow' (Brondoni, 2008).

However, we must make a distinction. The selling price of a television set is not decided solely on the basis of demand and/or as a consequence of a reduction in company costs. On the contrary, today it is the result of new logics, based on the company's ability to monitor the *time* (speed and timing) in which to introduce price changes on one hand, and on the other, to manage the *competitive space*, or the face-off with competitors and the price level the latter apply to their products. In a situation of over-supply (the case of the television set market), the creation of 'demand bubbles' depends on a company's ability to obtain the information it needs about the competition, as well as about the consumer market. The price thus becomes a factor of attraction and a feature of the various versions of the supply (Cappiello, 2005).

From a Market Driven Management (MDM) perspective, *competitive customer value management* is therefore based on companies' ability to perceive the market and to anticipate competitors' moves, not without a profound understanding of the consumer market and customers' behaviour. In highly dynamic and variable markets in particular, it is not always easy to measure demand and the size of individual segments, and to grasp any changes rapidly. In the television set sector, the level of differentiation of the consumer market is expressed not just by the presence of clearly defined segments, but by the existence of instable consumers groups which change according to both tastes and purchasing preferences. This induces manufacturers to find commercial solutions that are able to attack the consumer market on a vast scale, aiming to satisfy the largest number of customers possible.

The following paragraphs interpret the strategic behaviour of the main multinational television set manufacturers, according to three main critical factors (Day, 2000-2001): a) the presence of an externally-oriented corporate culture; b) the development of distinctive competencies to sense the market; c) the role of the organisational structure to manage global activities.

2. The Market-Driven Culture of Leading Television Set Manufacturers

The market-driven companies express an externally-oriented culture through their ability to identify precise market spaces, with the goal of satisfying customers and, whenever possible, of establishing a lasting and trustworthy relationship with them. This focus on the customer stimulates companies to look for increasingly innovative solutions, which allow, on one hand, to respond to changing market requirements and, on the other, to differentiate their products from those of their competitors.

In the television set sector, it is certainly not possible to overlook the role played in market dynamics by the consumer. However, manufacturers implement their own strategic choices on the basis of the behaviour of their competitors, while keeping an eye firmly on purchasers' changing tastes, in order to identify any 'free' market spaces, and to discover – and even create – 'demand vacuums' that can offer new market opportunities.

This poses the dilemma of whether an excellent company can be both competition-oriented and customer-oriented. As Day (2001) pointed out, the company that focuses simply on the competitive battle risks reducing its own profitability, for example by lowering the consumer price of its own products in order to squeeze market share from the competition. At the same time, with a marked-driven approach, it is clear that all the company's actions are taken in order to meet (and occasionally to anticipate) consumers' requirements.

The two aspects appear closely tied, and both reflected in the behaviour of companies in the sector under examination. For competitive purposes, it becomes essential to monitor and respond to the needs of the consumer market, but it also becomes critical to be able to anticipate one's rivals, to reduce their competitive strength on the market, in order to improve the company's performance and competitive positioning. A greater or lesser capability on the part of the company to impose itself, and therefore its competitiveness, in its target market, is a question of *degree*, since a company's competitiveness can only be measured *in relation* to that of other competitors (Cafferata, 2009).

Television set manufacturers are oriented to both the consumer market and the competition, and the level of competition is modified in space and in time, in relation to the changes generated not only on the market but also inside each company. Changes to competitive dynamics also depend on the changes that occur *within* each company, in terms of resources, capabilities and knowledge, combined and employed for the competitive battle.

However, in operational terms, it is not always easy for companies to combine the two approaches, since the ability to attract and keep customers loyal, on one hand, and to be quicker and stronger than the competition, on the other, demands strategic thinking that exploits 'corporate culture', 'distinctive capabilities' and 'organisational structure' that are typical requirements of a market-driven company.

A market-driven approach may be adopted if there is a strong corporate *culture*, which is expressed both by respect of the principles and values matured and developed over the years by the organisation – which constitute its corporate identity – and by focussing constant attention on its own capabilities and resources, which can be modified in the mutually evolving relationship with the market. The corporate culture therefore also includes the company's openness to the outside world and its propensity to grasp signals from the market, whether these regard the actions of the competition or consumer behaviour.

In the case of consumer electronics companies, they express their market orientation with a culture which, while retaining strong firm-specific connotations, is open to the outside world and grasps the opportunities it offers, looking for possibilities to cut costs, or to exploit consumer markets.

> □ *For example, the strategy of international manufacturing decentralisation put in place in the 70s and 80s by European and Japanese consumer electronics giants like Philips, Panasonic and Sony, in order to exploit cost advantages generated by locating in developing countries like South Korea or Taiwan (Chang, 1995; Gao and Tisdell, 2005).*

> □ *Another significant example is that of the many agreements covering R&D and manufacturing established by today's electronics giants (like the creation of the S-LCD Corporation, born out of a joint venture between Samsung Electronics and Sony Corporation, to produce latest generation LCD panels).*

Manufacturing delocalisation, various forms of outsourcing and strategic alliances are some of the many choices that reveal the ability of the companies in this sector to grasp the opportunities offered by the market.

We should also point out that the gradual process of manufacturing delocalisation towards countries in Southeast Asia has contributed not only to the development of this sector around the world, but also to the growth of 'new economies' and of the organisations located there.

> □ *The economic development of countries like Taiwan and South Korea first, followed by India and China, demonstrates that the strategic importance of direct foreign investment is not only a one-way process, spreading technology and products from more developed to less developed countries; on the contrary, the investments can*

contribute to the growth of less developed territorial areas and to the improvement of local entrepreneurship (Kogut, 1991).

The gradual transfer of technological knowledge and expertise has led to the creation of East Asian companies, which in time have been able to capitalise on the resources and competencies acquired, reaching a position of strength on the market that could jeopardised the survival of Western multinationals. Consistent with the MDM philosophy, these companies have shown an 'external orientation' that derives from the ability to acquire and take on board the technological skills of the processes and products on one hand and, on the other, to develop effective vertical integration and manufacturing diversification strategies, that have enabled these organisations to control the production of television components and sets at a global level.

The development of an externally oriented culture is therefore expressed by the attention paid to the market space. Understanding of the competitive space becomes critical and the companies that know how to interpret the signs have more chance of managing the dynamism and instability typical of global markets, characterised by continuous products innovation and by an increasingly demanding and selective consumer market. A market-driven company is therefore also knowledge-oriented, i.e. striving constantly to find new solutions and to develop knowledge within and between organisations. In leading television manufacturing companies, this is achieved in at least three important aspects:

1. technology related to manufacturing processes and product innovation;
2. intangible assets (management of relations between organisations, orientation to innovation, brand equity, information system and corporate culture);
3. international forms of labour organisations, in terms of the organisational structure, operating mechanisms, procedures and personnel training.

Knowledge (based on tangible and intangible assets) becomes the tool to manage the global competitive space, which cannot therefore be seen only as an effect of its 'physical dimension' (place) because 'companies' competitive behaviour is dominated by intangible features of supply and virtual spatial coordinates that supplement and qualify the so-called physical dimension, making it possible to rationalise a form of market-space management'. (Gnecchi, 2009).

This cannot overlook the ability to manage the *time* variable too, which is a critical factor for companies operating in the television set sector. Here time is considered not only as speed in the corporate decision-making process and the launch of differentiated and innovative products on the market ('time to market' and 'time-based competition'), but also as timing (Paniccia and Valeri, 2010), i.e. 'temporal consistency' between the manufacturing capability of the company, the weaknesses/deficiencies of the competitors in 'sensing' possible demand bubbles, marketing of the product and the customers' propensity to welcome the new product.

In this sector the process of planned technological obsolescence of products is a critical aspect; innovation in a television set is usually introduced *at the appropriate time*, i.e. when the previous product is already known and absorbed by the market. The life cycle of the television set is therefore marked out by technology, which is the tool by which companies can control and modify the various stages of the cycle, accelerating or slowing down the sequence (Ayres and Steger, 1985). As a result, management of technological innovation and the introduction of new products on the market force the company to know the *duration* of the 'demand bubble', as well as its potential (Corniani, 2002). This also means sensing the market's reaction times and abandoning it when the profitability level of the innovation introduced has not yet been compromised by competitors-imitators.

3. Intangible Assets as a Critical Source for Competitiveness

Together with a strong externally-oriented culture, the market-driven company stands out for the presence of developed capabilities and competencies – tangible and intangible – that are subject to continuous improvement in 'perceiving' the market and finding the appropriate way of relating to the other competitive forces.

In the consumer electronics sector, tangible resources, like procurements of raw materials and components, manufacturing plants, distribution channels and technology – may be acquired fairly easily on the market. The technology necessary to produce liquid crystal (LCD) and plasma displays is already familiar to all companies and the degree of competitiveness only depends on the possibility of differentiating the product (thanks to marginal and/or incremental changes), or reducing the selling price in particular periods of marketing promotions. The competitive comparison between companies thus generates *instable aggregates of clientele* (demand bubbles), and regardless of the market segmentation, their potential is exploited as long as the level of profitability is not compromised by other competitors-imitators.

It is the intangible resources that play a decisive role in terms of competitiveness: they make it possible for companies to stand out from the competition, because they constitute a closely integrated 'system', in which each intangible component takes value from the others that it is connected to in various ways (Brondoni, 2009). Corporate culture, brand equity and the firm's ability to transmit its value in the market constitute competitive assets to maintain the level of consumer loyalty high and to limit the power of large retailers in influencing customers' purchasing process[1].

We can identify a number of important intangible assets that underpin the competitiveness of leading companies in the television set market:

- *constant attention to the way the brand image is managed*, supported by target communications policies; these aim to inform and attract the end consumer, but also to promote the product with the other companies in the supply chain and stakeholders generally, thus reinforcing the brand equity;
- *strong orientation to scientific research and technological innovation*, sustained both by the capital spending by each company, and by advantages deriving from cooperative relations between companies in the supply chain and specialist research centres, with which to share and develop knowledge;
- *global supply networks*, which arise from establishing strategic groups and alliances with suppliers of components worldwide;

- *cooperative relations with distributors* that specialised in the retail sale of electronic consumer articles, which were considered as fundamental partners, not only for the marketing and promotion of the products, but also to obtain information about consumers' preferences and purchasing behaviour;
- *flexible organisational structures*, which are able, on one hand, to respond to the actions of local competitors, to grasp the opportunities of individual markets and to plan targeted marketing policies and, on the other hand, to maintain the centralised strategic and managerial policy and the unity of the culture of the entire corporate group.

We must clarify a point regarding R&D activities. The many cases of collaboration between companies do not seem to be as frequent in the case of activities linked to 'specific knowledge' which may be considered an intangible asset and, therefore, the source of a distinctive competency. Shared knowledge and the problem of the appropriation of innovation are critical in the consumer electronics sector. The analysis of this industry clearly shows that companies are recalibrating their outsourcing and delocalization, in favour of an *insourcing process*, which involves not only R&D activities, but also *manufacturing* activities.

> □ *The case of Sony, Sharp and Toshiba is significant: between 2004 and 2005 they started constructing numerous manufacturing plants in Japan, with the goal of exploiting the economic and social advantages linked to the national territory. This is a new phenomenon, which contrasts with the well-known tendency to decentralise the less critical stages of the manufacturing process and to relocate to other countries to search for comparative advantages.*

The cases mentioned show that a 'perception of the market' is expressed in the implementation of strategies that may seem to 'buck the trend'; as a matter of fact, these strategic decisions reveal an innovative capability, which strives to rationalise manufacturing and organisational processes and to achieve *economies of experience*, deriving from understanding of the national context. From this viewpoint, *the capacity to perceive the market in a proactive way may be considered one of the company's intangible assets*.

4. The Role of the Organisational Structure

Another factor that characterises market-driven companies is the presence of an *organisational configuration* that is able to combine the company's need to organise and control internal activities, and the need to monitor the competition, the consumer market and the other competitive forces ('external orientation' and 'development of competencies to sense the market').

To understand the role of the 'organisational configuration' in the implementation of economic-corporate activities at a global level, we have to distinguish between the structures of each individual company and the 'inter-organisational dimension' generated by the various forms of collaboration between companies at a global level.

Concerning the first aspect, leading television set manufacturers are all large and strongly diversified. They are very ramified and heterogeneous corporations, in view of the many activities necessary to operate at a global level. Primarily they adopt a *multi-divisional* structure (by product and/or by geographical area), where each individual division or sub-holding is in most cases part of global networks. This organisational solution is typical of the *transnational model* (Bartlett and Ghoshal, 1989), and is ideal to grasp the advantages of globalization (global economies of scale, homogeneous communication and brand identity) and to respond to companies' need to adapt their strategies to the specific features of local markets[2].

In the television set sector, the global model may be seen as a manifestation of an 'externally-oriented culture' since – consistent with MDM philosophy – it allows to meet two needs (Majocchi and Zucchella, 2008): 1) to combine and integrate shared and disseminated knowledge within the whole company and 2) to introduce innovation in the foreign markets through an organisational solution that 'respects' the local environment – even identifying possible 'demand bubbles' – while maintaining a strong strategic centre.

It is not easy, however, to precisely measure the *internal dimension* of a corporation because, especially in the case of global companies, the *organisational boundaries* are not always defined and easily identifiable; in fact, they change according to the vertical and horizontal inter-organization relationships accomplished by the company. The agreements – more and less formalized – tend to weaken the organisational boundaries of each individual company and contribute to increase its *external dimension*, which is expressed in the number and typology of alliances with other firms.

Although this implies that corporate governance is more complex, it is still true that the various forms of cooperation that have been achieved in the television set sector have brought companies specific advantages deriving from 'intensity of knowledge sharing'. This regards not only simply 'putting together' the resources provided by each company, but sharing an heterogeneous pool of competencies that are complementary among them and adaptable to different but similar businesses (Doz and Hamel, 1998). This ability is an intangible asset for the company, because it is versatile and can be applied to different contexts.

5. Emerging Issues

This analysis reveals that competition has dynamically changed over the years in the television set sector: some companies have survived, others have been created and have then strengthened their competitive position, others still have revealed weaknesses in managing environmental turbolence and have left the market. These dynamics are an expression of the 'natural' evolution of industrial sectors, but they are particularly evident in global sectors where the level of technological innovation is high and determines changes both in individual companies and in the sector as a whole.

From an MDM viewpoint, the leading multinationals in the television set sector are all market-driven, because they own a remarkable externally-oriented culture, which emerges from the capacity to observe (and anticipate) the behaviour of competitors, to study the consumer market and to manage the competitive space. These capabilities are intrinsic part of the corporate culture and may be seen as intangible assets and, as such, potential competitive factors.

In fact, if tangible assets are the 'essential core' for implementing any business activity, intangible assets allows them to be used in an appropriate way, because they constitute a 'system of competencies', based on the unique combination of corporate culture, brand equity, knowledge and experience acquired by the company. The time necessary to create these competencies, the difficulty in measuring them and the tools used to develop them (people, processes and means) make intangible assets an inimitable element of the corporate culture and a possible source of competitive advantage.

However, these considerations require an in-depth examination and we need to take a critical look at what said so far.

The degree of market orientation and the sources of competitive advantage are *not* stable in time and space, because market-driven companies base their competitiveness on the ability to 'modulate' their resources in order to identify new spaces in the consumer market, characterized by instable groups of customers. This leads us to investigate more deeply on the meaning of '*sustainable competitive advantage*'.

Furthermore, if we consider that in the sector under consideration, competitiveness is based on a company's ability to develop increasingly innovative products, we immediately see the critical aspect of *synchronising the identification of 'demand bubbles' with the introduction of innovation*. In other words, it would be interesting to verify whether it is the discovery of a market space that determines the activation of the process of innovation (*pull approach*), or whether it is technological innovation that creates new demand bubble (*push approach*). These issues demand further analysis, because they draw attention to the critical relationship between the company's ability to grasp market opportunities, the consumer's attitude to absorb product innovations, and the possibility for the firm – in terms of resources, competencies and knowledge – to introduce a new technology.

One last aspect to highlight is that, consistent with the MDM approach, the degree of market orientation is also reflected in the ability to seize and exploit the advantages deriving from the various forms of global cooperation. However, this obliges the company not only to organise the units belonging to its 'internal dimension' – in order to protect its distinctive competencies – but also to learn the best way to manage the network of relationships with other companies, organisations and institutions at a global level. It may be useful in this sense to value not only the quantitative dimension, but also the *qualitative* dimension of these relations. The 'quality', which in the consumer electronics sector is intuitively attributed primarily to manufacturing processes and to products, becomes critical even in managing inter-organization relations: establishing long-term and trustworthy relationships may constitute an intangible asset for the company, and therefore strengthen its corporate culture and brand image worldwide.

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Notes

[1] It is a known fact that modern distribution companies are a competitive force, able to influence the consumer's purchasing process, reducing in this way the control of the manufacturing companies in managing products' distribution and promotion. The power of big retailers (both specialist and general) derives from the pool of services that they are able to offer to customers. This tends to weaken brand loyalty in favour of store loyalty, i.e. developing consumer's loyalty to the store brand rather than to the product brand. The retailers' strategy aims to create strong synergies between *store image*, *store satisfaction* and *store loyalty* (Bloemer and Ruyter, 1998). It also modifies the times and ways of the purchasing behaviour, which takes truly place when the consumer has optimised the relationship between the value of the product to purchase (*brand benefit*) and the place of purchase (*outlet benefit*) (Brondoni, 2009).

[2] We should however point out that the main television set manufacturers adopt a certain differentiation in choosing the place where to implement their business activities. Manufacturing operations, for example, are delegated to a few divisions and are primarily located in East Asian countries, while distribution is usually delegated to branches set up in each country. After-sales service (repairs, operating checks, customer assistance) often envisages recourse to international organisations, giving technical support both to manufacturers and to retailers in the different countries.