

## Chapter 6: Marketing Capabilities and Marketing Innovations

*Sungho Lee*

### *Exploitative Marketing Capability*

#### **Concept of Exploitative Marketing Capability**

The concept and definition of exploitative marketing capability originated from March's (1991) ambidexterity theory in organizational learning. Since then, it has been extensively developed through previous studies on the capabilities and innovation performance of ambidextrous organizations, and it is now actively researched in the fields of marketing strategy and capability.

Exploitative marketing capability refers to a company's ability to improve and expand existing marketing knowledge, technology, and processes, emphasizing incremental improvements and efficiency gains, particularly in stable market environments (Vorhies et al., 2011).

Exploitative marketing capability has been conceptualized in various terms in marketing literature. These include marketing exploitation capabilities, market exploitation, exploitative market learning, marketing exploitation, exploitation-dominated capability, and capabilities of market-driven organizations.

Kyriakopoulos and Moorman (2004) defined marketing exploitation capabilities as a company's ability to strengthen and improve existing technologies, processes, and marketing capabilities while enhancing its connection with the current market to achieve valuable performance. They particularly emphasized the key to improving the efficiency of existing marketing strategies, such as

current market segmentation, positioning, distribution, and other marketing mix strategies.

Kim and Atuahene-Gima (2010) explained the importance of strengthening existing technologies based on a company's current expertise and experience through the exploitation of market learning. Their study highlighted that organizations enhance efficiency in their activities based on a deep understanding of current customers and competitors, preferring to utilize proven routines rather than creating new ones.

Vorhies et al. (2011) and Kyriakopoulos and Moorman (2004) emphasized that marketing exploitation is a key factor in creating value and securing a competitive advantage in existing markets. Ho and Lu (2015) defined marketing exploitation capability as effectively utilizing existing technologies and products to meet current market demands. Li et al. (2022) presented the concept of exploitation-dominated capability, emphasizing the importance of maximizing existing financial, technological, and human resources from the perspective that businesses must "live in the present."

Day (1994) defined the capabilities of market-driven organizations as a strategic approach focused on the external environment, particularly customers and the market. He argued that this is essential for effectively adapting to market changes and securing a competitive advantage by identifying and responding to market demands and opportunities. Although Day did not explicitly categorize these organizational capabilities as exploitative in 1994, in his 2011 follow-up study, he reinterpreted market-driven organizations as being biased towards exploitative thinking by overemphasizing the utilization of existing assets and the static attributes of capabilities (rarity, immobility, and inimitability) while

neglecting the exploratory aspects of the market learning process. A summary of these findings is provided in <Table 1>.

*Table 6.1: Various Definitions of Exploitative Marketing Capability*

Researcher	Term	Definition
Kyriakopoulos & Moorman (2004)	Marketing Exploitation Capabilities	Enhancing and improving existing technologies, processes, and marketing capabilities; Strengthening connections with the current market to achieve valuable performance; Emphasizes efficiency improvements in existing market segmentation, positioning, distribution, and other marketing mix strategies
Kim & Atuahene-Gima (2010)	Exploitative Market Learning	Strengthening existing technologies based on a company's current expertise and experience; Enhances efficiency in operations by leveraging deep insights into current customers and competitors; Prefers using established routines rather than creating new ones
Vorhies et al. (2011)	Marketing Exploitation	Prioritizes efficiency improvements and productivity gains within existing markets; Aims to strengthen marketing practices to acquire a competitive advantage
Ho & Lu (2015)	Marketing Exploitation Capability	The ability to effectively utilize existing technologies and products to meet current market demands
Li et al. (2022)	Exploitation-dominated Capability	Maximizing the use of existing financial, technological, and human resources; Emphasizes "living in the present" by optimizing current assets
Day (1994, 2011)	Capabilities of Market-Driven Organizations	A strategic approach focused on external environments, particularly customers and the market Essential for adapting to market changes and securing competitive advantage by identifying and responding to market demands; Later studies highlighted a bias towards exploitative thinking by overemphasizing existing asset utilization and neglecting exploratory market learning.

### **(1) Key Characteristics of Exploitative Marketing Capability**

The components of exploitative marketing capability include the following key characteristics:

1. **Efficient Utilization of Existing Resources** – Vorhies et al. (2011) argued that the foundation of exploitative marketing capability lies in



maximizing the efficient use of a firm's existing marketing resources and knowledge.

2. **Incremental Improvement** — According to Kyriakopoulos and Moorman (2004), the focus is on gradually improving and optimizing current marketing processes and capabilities rather than making radical changes.
3. **Optimization of Market Performance** – Vorhies et al. (2011) emphasized that enhancing short-term performance by concentrating on the existing customer base and market segments is crucial for maximizing success in established markets.
4. **Reduction of Uncertainty** — Kyriakopoulos and Moorman (2004) explained that a core aspect of exploitative marketing capability is minimizing uncertainty in marketing activities and ensuring predictable outcomes by utilizing proven methods and strategies.
5. **Effective Response to Resource Constraints** – Mu (2015) highlighted the importance of effectively managing limited resources, particularly in environments such as small and startup businesses.
6. **Customer Orientation** — Zhang et al. (2015) described a key feature of exploitative marketing capability as deeply understanding and satisfying the needs of existing customers to enhance customer loyalty and encourage repeat purchases.
7. **Emphasis on Short-Term Performance** – Vorhies et al. (2011) noted that rather than focusing on long-term innovation, exploitative marketing



capability prioritizes short-term performance and efficiency improvements to achieve immediate financial results.

These characteristics strengthen a company's current market position and leverage existing capabilities to achieve stable performance.

## **(2) Detailed Explanation of Exploitative Marketing Capability**

### **✓ Michael E. Porter's Competitive Strategy and Market-Driven Capabilities**

Michael E. Porter's competitive strategies — cost leadership, differentiation, and focus — along with value delivery strategies such as operational excellence, product leadership, and customer intimacy — all emphasize the importance of target market consideration while positioning a company's business, products, and services by leveraging its core resources and capabilities. These and mainstream management strategies are rooted in classical economist David Ricardo's theory of comparative advantage (Makadok, 2001). This approach is known as the resource-based view of management strategy.

### **✓ Exploiting Capability and the Resource-Based View**

Exploiting capability is the ability to leverage existing core competencies that have already been developed. The theoretical approach to this capability is called the Resource-Based View (RBV) of capability exploitation, which operates on the inside-out business perspective — where the firm utilizes its internal core competencies to develop products/services and market them externally. A classic example is Honda, which successfully leveraged its core competency in small engine technology and manufacturing to dominate markets for small motorcycles and compact cars. Business and competitive strategies that follow



this approach focus on sustainable competitive advantage, internal efficiency, and process stability.

✓ **Exploiting Capability from a Market-Driven Perspective**

Alternatively, exploiting capability can also be approached from an outside-in perspective, where business development is market-driven. In this case, a company identifies high-potential opportunities based on market (customer and competitor) needs and selects opportunities that align with its core competencies to develop and market products and services. Many successful marketing strategies follow this approach.

Marketing strategy, therefore, prioritizes market-driven business concerns such as market sensing, customer linking, channel relationships, and technology monitoring. This approach is called the capabilities of market-driven organizations (Day, 1994, 2011). Consequently, this capability is also referred to as market-driven marketing capability, and George Day emphasized that it should be executed at the organizational level across business units.

Although the resource-based and market-driven perspectives differ in business development approach, they share the common foundation of leveraging core competencies. In this sense, the two concepts are almost identical.

*Key Capabilities of Market-Driven Organizations*

As illustrated in [Figure 1], the capabilities of market-driven organizations consist of three main processes: outside-in processes, spanning processes, and inside-out processes. Market sensing, customer linking, channel bonding, and spanning processes are particularly emphasized. Additionally,



organizations that aim for market-driven innovation should focus on the following key questions:

- **Open-minded inquiry:** Does the organization foster a culture of candid questioning based on collected information?
  - Active scanning of information (Top-down & Bottom-up)
  - Benchmarking: Who are the key competitors?
  - Best practice processes beyond industry boundaries
  - Direct experience through continuous experimentation and improvement
- **Synergistic information flow:** Is information seamlessly shared across key functions such as production, sales, engineering, R&D, and finance?
- **Shared mental models:** Does the organization interpret information through mutually shared mental models?
- **Organizational memory:** Does the organization retain and utilize its historical knowledge and experiences?

These factors are crucial in building a market-driven organization capable of sustained innovation and competitiveness.



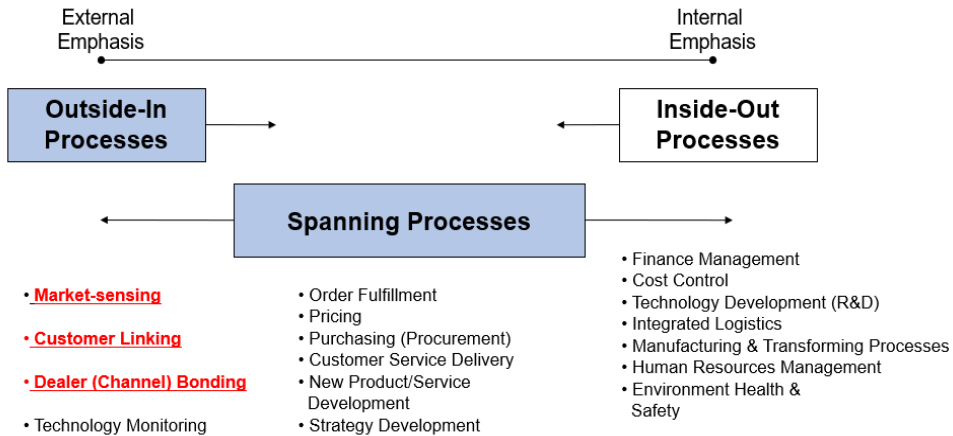


Figure 6.1: Capabilities of Market-Driven Organizations (Day, 1994)

### Components of Exploitative Marketing Capability

In this chapter, Day's (1994) *capabilities of market-driven organizations* are adopted as the conceptual foundation for exploitative marketing capability.

From an *outside-in perspective*, marketing capability is conceptualized as *market-based capability*. Day (1994) and Srivastava et al. (1998) defined this capability through three key components: **market sensing, customer engagement (customer connection), and partner linking (channel relationships)**. These three components are complementary and function in an interconnected manner.

- **Market-Sensing Capability:** As presented in Day's (1994) and Du and Kamakura's (2012) research, market sensing capability enables firms to detect and respond to subtle market changes and trends, laying the groundwork for creating superior customer value.
- **Customer Engagement:** According to Day and Moorman (2010), customer engagement is a key driver that allows firms to create



exceptional customer value, ultimately leading to improved customer loyalty toward the company and its products.

- **Partner Linking:** Studies by Dyer and Singh (1998), Mu and Di Benedetto (2012), and Teece (2007) emphasized that partner linking enhances an organization's communication channels within its network, increases access to diverse information and resources, and strengthens its ability to respond to market demands.

### **(1) Market Sensing**

Market sensing is an organizational capability that systematically collects and analyzes information within the business ecosystem to anticipate market changes and identify strategic opportunities (Day, 1994; Teece, 2007). This capability goes beyond simple data collection and is implemented through advanced information processing mechanisms such as scanning, filtering, evaluating, and interpreting data (Mu & Di Benedetto, 2012; Teece, 2007). Market sensing capability helps transform an uncertain business environment into a structured risk analysis framework, minimizing potential risks and maximizing strategic performance outcomes (Weick et al., 2005).

Given the complexity, unpredictability, and high volatility of today's business environment, proactively detecting market changes and opportunities is critical in securing a firm's sustainable competitive advantage (Day, 2011; Mu & Di Benedetto, 2012). Firms can systematically monitor market trends and strategic opportunities through market sensing capability.

Furthermore, by conducting an in-depth analysis of market trends and environmental signals, companies can identify new market patterns and



uncover potential customer needs, thereby creating opportunities for innovative product development that can secure a competitive edge (Day, 1994; Du & Kamakura, 2012; Teece, 2007).

## **(2) Customer Engaging (Customer Linking)**

Customer engagement is defined as a strategic capability enabling a company to establish, develop, and maintain sustainable and deep customer relationships (McEwen, 2005; Park et al., 2010; Yim et al., 2008). This capability extends beyond mere transactional relationships, incorporating complex interactions that serve as a key driver of innovation in new product development, an essential factor in profitability improvement, and a strategic asset for overall corporate performance enhancement (Brodie et al., 2011).

Vorhies et al. (2011) empirically demonstrated that customer engagement functions as a firm's frontline capability, allowing it to detect and effectively respond to dynamic changes in the market environment. Their research particularly emphasized that customer engagement is not just a marketing tool but also a crucial source of information for strategic decision-making and innovation processes. In this context, customer engagement is a concrete mechanism for implementing a customer-centric philosophy and a strategic platform for shaping and managing customer expectations.

Developing and deepening customer engagement are based on corporate integrity, authenticity, and genuine customer interest. Mu & Di Benedetto (2012) argued that this process creates a virtuous cycle that enhances customer satisfaction, strengthens brand loyalty, increases customer influence, and sustains interest in products and services. Moreover, customers seek various **utilitarian, hedonic, and emotional** benefits, forming psychological,



emotional, and behavioral connections with the company (Bhattacharya et al., 1995; Park et al., 2010; Yim et al., 2008).

As a result of these multidimensional connections, satisfied customers with the company's value propositions experience **organizational identification**. Bhattacharya et al. (1995) and Palmatier et al. (2009) systematically demonstrated that such identification fosters emotional attachment and gratitude towards the company, strengthening customer loyalty and promoting spontaneous, positive word-of-mouth effects.

### **(3) Partner Linking (Channel Bonding)**

Partner linking is a core organizational capability that enables firms to establish strategic networks with external partners and systematically integrate their resources and capabilities to create value. In today's highly interconnected business ecosystem, managing sophisticated interactions with multiple partners and efficiently exchanging knowledge and resources is essential for providing complex customer solutions. Within this context, the strategic importance of **partner-linking capability** has become increasingly prominent (Mu, 2014).

This capability is decisive in strategically coordinating network partners' diverse resources, specialized technical expertise, and differentiated market intelligence to generate innovative customer value (Dyer & Singh, 1998; Hoang & Rothaermel, 2010; Mu & Di Benedetto, 2012). Mu (2013) particularly emphasized that systematically integrating partners' complementary resources and capabilities is essential for sustainable product innovation and differentiated customer experiences. In this theoretical framework, firms can create an **innovation-driven value ecosystem** that aligns with customer needs

by strategically coordinating and optimizing the resources and capabilities of various stakeholders.

The advancement of partner-linking capability directly impacts a company's strategic flexibility and innovation performance. The more creatively a company reconfigures and integrates its partners' heterogeneous resources and capabilities, the more innovative products and services it can introduce to the market. Ultimately, this results in differentiated customer value creation. This capability enhances a firm's adaptability to environmental changes and strengthens strategic agility in dynamic market environments.

Partner linking capability holds two significant strategic implications:

1. **Strategic Utilization of Partners' Unique Knowledge Base and Differentiated Resources** – This enables firms to capture new market opportunities, build innovative capabilities, and respond effectively to rapid environmental changes (Day, 2011; Dyer & Singh, 1998; Srivastava et al., 1998).
2. **Enhancing the Strategic Value of Existing Knowledge and Organizational Capabilities** — By advancing their existing knowledge base and organizational competencies, firms can maximize the strategic value of their resources (Mu & Di Benedetto, 2012; Srivastava et al., 1998). This dual effect significantly contributes to establishing sustainable competitive advantages for firms.



### **Prior Research on Exploitative Marketing Capability**

A review of prior research on exploitative marketing capability shows that Day (1994) identified market-sensing and customer-linking capabilities as core competencies of market-driven organizations. Subsequent empirical studies have validated the impact of these capabilities on firm performance across various contexts.

Market orientation and marketing capabilities are closely related to the competencies of market-driven organizations. Specifically, Dursun-Kilic (2005) empirically demonstrated that market orientation positively influences new product performance by mediating organizational capabilities. This finding provides an important implication that market-sensing capability can lead to actual improvements in firm performance.

Furthermore, the significance of exploitative marketing capability has been also confirmed in the context of internationalized small and medium-sized enterprises (SMEs). According to Wright et al. (2007), global market orientation serves as a key antecedent in the internationalization process of SMEs, indicating that market-sensing and customer-linking capabilities are essential for success in international markets.

Wilson (1995) also studied the value-creation mechanisms in customer-supplier relationships. He emphasized that Day's (1994) market-sensing and customer-linking capabilities significantly impact firm performance through value creation and sharing processes. These studies demonstrate that exploitative marketing capability is central to a company's value-creation processes.



## ***Exploratory Marketing Capability***

### **Concept of Exploratory Marketing Capability**

Similar to the previously discussed exploitative marketing capability, the concept and definition of exploratory marketing capability originated from March's (1991) ambidexterity theory in organizational learning. Over time, it has been extensively developed through prior studies on ambidextrous organizations' capabilities and innovation performance. It is now actively researched in the fields of marketing strategy and capability.

The academic definition of exploratory marketing capability has evolved through various scholars. Kyriakopoulos and Moorman (2004) defined it as leveraging new market knowledge to develop new skills, processes, and marketing capabilities. In their subsequent research, along with Vorhies et al. (2011), they further refined the concept, emphasizing the application of new market knowledge and the development of marketing capabilities through innovation activities.

Kim and Atuahene-Gima (2010) introduced the term "exploratory market learning," describing the process by which organizations acquire and utilize knowledge beyond the boundaries of their current customers and competitors. Their study highlighted exposure to new and heterogeneous information, enhancing market knowledge diversity and creating opportunities for innovation.

Ho and Lu (2015) took a more practical approach by defining exploratory marketing capability as developing new products and services to respond to potential market demands. More recently, Li et al. (2022) introduced the concept of "exploration-dominated capability," emphasizing the firm's ability to



focus on new technology invention, new product development, and potential market expansion from a future-oriented perspective.

Meanwhile, Day (2011) proposed the concept of "adaptive marketing capability," explaining the practical significance of exploratory marketing capability in terms of adaptation and response to market changes.

These definitions collectively highlight that exploratory marketing capability is crucial in identifying new market opportunities, developing innovative products, and formulating future-oriented marketing strategies. A summary of these findings is provided in <Table 2>.

*Table 6.2 Various Definitions of Exploratory Marketing Capability*

Researcher	Term	Definition
Kyriakopoulos & Moorman (2004)	Marketing Exploration Capabilities	The ability to utilize new market knowledge to develop new skills, processes, and marketing capabilities
Kim & Atuahene-Gima (2010)	Exploratory Market Learning	The process of acquiring and utilizing knowledge beyond the boundaries of current customers and competitors, enhancing market knowledge diversity and creating opportunities for innovation
Ho & Lu (2015)	Marketing Exploration Capability	The ability to develop new products and services that meet potential market demands by applying new technologies and knowledge
Li et al. (2022)	Exploration-dominated Capability	The capability to focus on new technology invention, new product development, and potential market expansion from a future-oriented perspective
Kyriakopoulos & Moorman (2004); Vorhies et al. (2011)	Marketing Exploration	The ability to apply new market knowledge through innovation activities to develop new skills, processes, and marketing capabilities in a tailored manner
Day (2011)	Adaptive Marketing Capability	Marketing capability for adapting to and responding to market changes

## (1) Key Characteristics of Exploratory Marketing Capability

The key characteristics of exploratory marketing capability can be analyzed across four primary dimensions:

1. **Innovation and Opportunity Exploration** – Companies must actively acquire and utilize new market knowledge. In this context, firms experiment with new ideas and approaches, develop innovative marketing strategies (Mu, 2015), and continuously explore and identify new market opportunities (Vorhies et al., 2011).
2. **Adaptability and Flexibility** – Exploratory marketing capability provides the foundation for companies to quickly adapt to rapidly changing market environments (Day, 2011). Particularly in the digital transformation era, this capability enables firms to effectively adjust marketing strategies and lead market changes (Vial, 2021).
3. **Strategic Importance** – Exploratory marketing capability is crucial in developing differentiated strategies and securing sustainable competitive advantages (Morgan et al., 2009). Ultimately, it is essential for long-term corporate performance improvement (Vorhies et al., 2011).
4. **Integration with Organizational Capabilities** – Exploratory marketing capability is closely integrated with a company's R&D capability, facilitating technological innovation (Mu, 2015). Additionally, it is strongly linked to leadership and strategic capabilities (Day, 2011), enhancing an organization's innovation capacity.





These multidimensional characteristics suggest that exploratory marketing capability is critical for innovation, adaptation, and long-term success in modern businesses.

## **(2) Detailed Explanation of Exploratory Marketing Capability**

### **✓ Exploratory Capability and Adaptive Marketing Capability**

Exploratory capability refers to a firm's ability to explore and develop new capabilities to seize business market opportunities (which are later exploited). This capability emphasizes responding dynamically to environmental changes, identifying new opportunities, and creating competitive advantages suited for these opportunities. In contrast, exploitative capability emphasizes "selection and focus," maximizing the use of existing core competencies.

### **① Dynamic Capability**

The first type of exploratory capability is dynamic capability. Since the late 1990s, the dynamic capability perspective has gained prominence in strategic management. This concept is rooted in the theories of Austrian economist Joseph A. Schumpeter, who emphasized innovation and creative destruction. The core idea is that firms should identify business opportunities in rapidly changing environments, develop the necessary capabilities, and create new value. While the resource-based view of management strategy focuses on utilizing existing core competencies, dynamic capability-based management strategy prioritizes exploring and developing new capabilities required by evolving environments.

According to Teece, dynamic capability refers to a firm's ability to integrate, develop, and reconfigure internal and external resources in response to



environmental changes (Teece, 2009; Teece & Shuen, 1997). Firms must dynamically modify and evolve their core competencies. For example, Apple pioneered the PC market with its technology and market foresight, but it faced a crisis due to a lack of dynamic capability to adapt. In contrast, IBM was on the brink of collapse but recovered through a dynamic capability strategy. Although IBM was late in recognizing the decline of the mainframe computer market, it analyzed the situation, identified new service opportunities, and restructured its technology, human resources, and core competencies — quickly transitioning from a product-centric to a service-centric company.

Furthermore, Teece identified three processes that form dynamic capability (see Figure 2):

1. Sensing: Detecting small but significant market signals to discover new opportunities,
2. Transforming: Reconfiguring resources and core competencies to build competitive strengths that align with new opportunities,
3. Implementing: Designing an appropriate organizational structure to execute strategies and achieve economic performance.

Through these processes, firms can continuously adapt to changing environments, enter new businesses, and redefine existing ones.



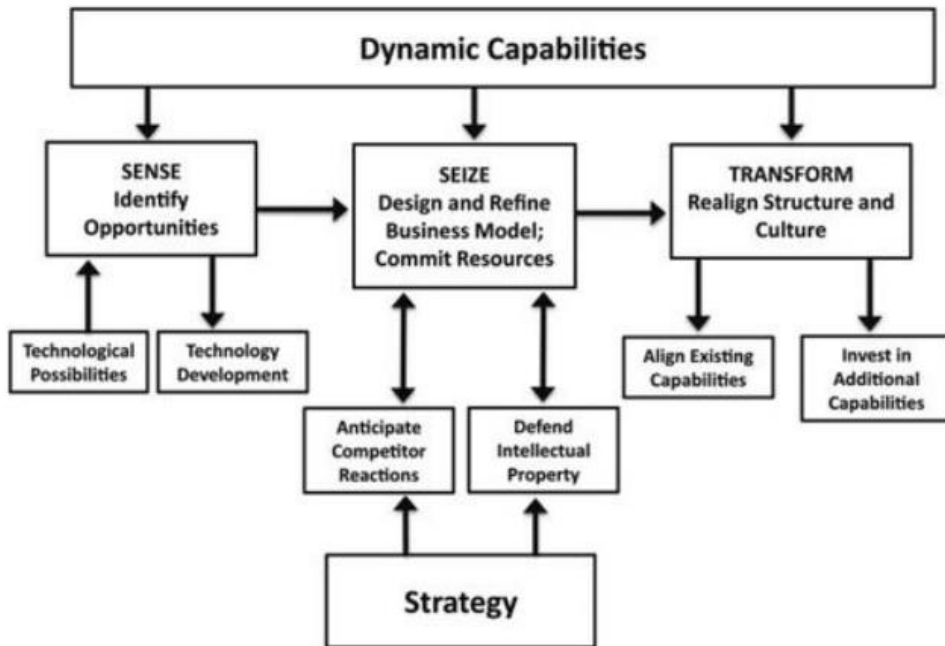


Figure 6.2: Dynamic Capabilities (Teece, 2018)

## ② Adaptive Marketing Capability

Day introduced the second type of exploratory capability, adaptive marketing capability (Day, 2011). While dynamic capability follows an inside-out business perspective (focusing on internal competencies before addressing market needs), adaptive marketing capability follows an outside-in perspective (starting with market needs and then developing capabilities accordingly). Moreover, despite its emphasis on novelty, dynamic capability still considers existing resources. In contrast, adaptive marketing capability ignores existing resources and identifies new business opportunities demanded by external market and customer needs.

From this perspective, adaptive marketing capability is closer to Schumpeter's concept of creative destruction. The outside-in approach emphasizes absolute customer-centric innovation, unrestricted by preconceived ideas or internal constraints.

One of the most prominent advocates of this approach is Jeff Bezos, founder and chairman of Amazon. Bezos revolutionized cloud computing and digital content services by leveraging Amazon's infrastructure. He referred to this as the "working backward" approach (Lyons, 2010):

*"Rather than asking, 'What are we good at, and how can we expand on that?' we should first ask, 'Who are our customers?' and 'What do they need?' Once we identify those needs, we must commit to fulfilling them—regardless of whether we currently have the required capabilities. No matter how long it takes, we will acquire and develop the necessary skills. I have observed that many executives believe their optimal business strategy is extending their company's core competencies. While this may work, the real risk is that if your company continuously fails to acquire new skills, the world will move past you before you even realize it."* This philosophy resembles Samsung chairman the late Lee Kun-Hee's famous "Change everything except your wife and children" slogan from his new management initiative.

### ③ Key Components of Adaptive Marketing Capability (Market-Creation Marketing Capability)

[Figure 3] illustrates the key components and roles of market-creation marketing capability (adaptive marketing capability):



✓ **Vigilant Market Learning:** The first component is vigilant market learning, which refers to an organization's ability to anticipate market evolution and identify new value combinations to create unique customer benefits. For example:

- Apple innovated the iPod by integrating ease of use, a digital music store, and a simple player interface into one system.
- Apple then simplified the digital music experience by eliminating consumer pain points and introduced the iPhone.

To achieve vigilant market learning, firms must:

- Move beyond traditional market research to predict future market evolution.
  - Develop a corporate culture that encourages creative ideas and prevents unconventional innovations from being dismissed prematurely.
  - Cultivate deep customer empathy to design new value propositions (Design New Value for Consumers).
- ✓ **Adaptive Market Experimentation:** The second component is adaptive market experimentation. Given the unpredictability of human consumption behavior and future markets, traditional pre-planned execution strategies may no longer be effective. Instead, firms should:
- Run small-scale pilot actions to test and iterate new ideas based on experimental results.



- Strengthen an adaptive and experimental mindset in strategy formulation.

For example:

- Apple partnered with Motorola in 2004 to launch the ROKR Music Phone, which failed disastrously.
- Learning from this failure, Apple refined its strategy and successfully launched the iPhone, revolutionizing the smartphone industry.

Through adaptive market experimentation, firms nurture an internal culture of persistence and learning, fostering an environment that supports continuous value creation (nurture new value for employees).

✓ **Open Marketing:** The third component is open marketing, which emphasizes collaborating with diverse partners to create new customer value. Since Chesbrough introduced the concept of open business models, firms have increasingly engaged with external partners to enhance value creation. To implement vigilant market learning and adaptive market experimentation, companies should co-build new value with various marketing partners, including:

- Diverse consumer groups
- Marketing consulting firms
- Advertising agencies
- Market research partners (database analysts, social media text analysts, etc.)
- Experimentation partners



Open marketing enables firms to co-design innovative solutions with relevant marketing partners (co-build new value with relevant marketing partners).

In conclusion, firms must continuously adapt, explore, and redefine their strategies in today's fast-changing and uncertain business environment. By implementing vigilant market learning, adaptive market experimentation, and open marketing, companies can develop and sustain market-driven capabilities that enable long-term success and innovation.

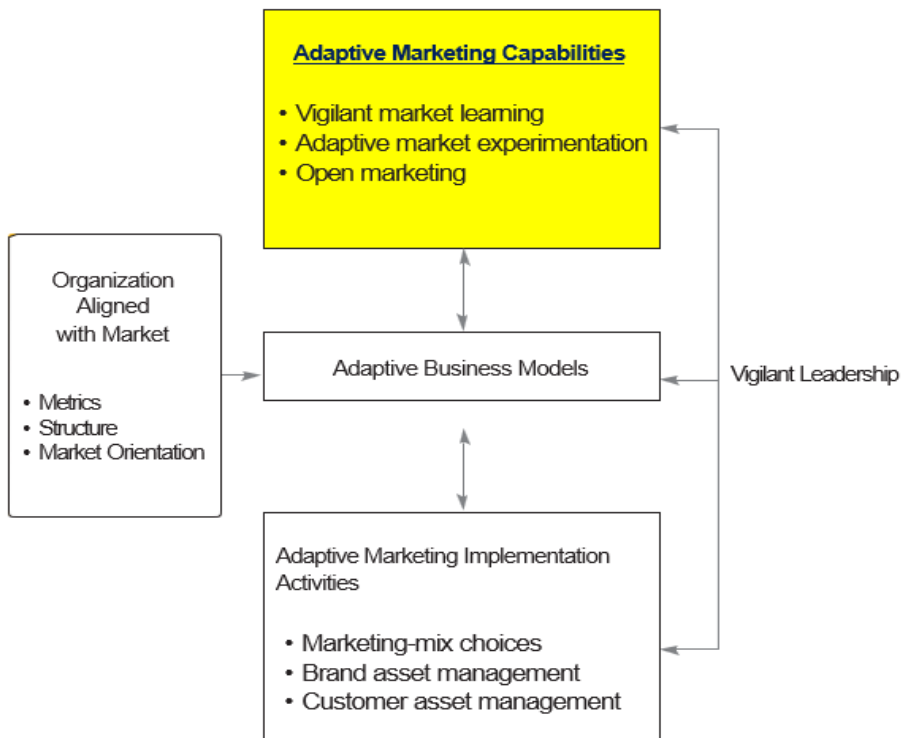


Figure 6.3: Adaptive Marketing Capability & Business System (Day, 2011)



### **Components of Exploratory Marketing Capability**

Day's (2011) adaptive marketing capability is the conceptual foundation for exploratory marketing capability. An outside-in strategy is a strategic approach that focuses on external resources and capabilities within the organization's environment (Day, 2011; Saeed et al., 2015). Under this strategic paradigm, firms can transcend organizational boundaries to detect subtle market signals and transform them into high-value market opportunities, thereby establishing sustainable competitive advantages (Day, 2014; Moorman & Day, 2016). The core of an outside-in strategy lies in developing adaptive marketing capability. This capability (Day, 2011, 2014; Hunt & Madhavaram, 2020; Moorman & Day, 2016) is defined as the ability to generate deep market insights through: vigilant market learning, adaptive market experimentation, open marketing.

These elements form the foundation for value creation and product innovation and are recognized as essential prerequisites for securing a firm's competitive advantage (Day, 2011; Guo et al., 2018; Moorman & Day, 2016). Through external-oriented processes, firms can accumulate comprehensive knowledge regarding current and potential customer needs, competitors' strategic actions, and customer value propositions (Day, 2011; Narver & Slater, 1990; Saeed et al., 2015).

In conclusion, exploratory marketing capability is a strategic mechanism that enables firms to respond to dynamic market environments effectively. This capability allows firms to generate deep market insights, empirically validate innovative ideas, and establish knowledge-sharing networks based on strategic partnerships, thereby facilitating a comprehensive understanding and response to current and potential customer needs (Day, 2014; Hunt & Madhavaram, 2020).





### **(1) Vigilant Market Learning**

Vigilant market learning is defined as an early warning system that enables firms to proactively detect and anticipate market changes, allowing them to identify opportunities and threats faster than competitors (Challagalla et al., 2014; Guo et al., 2018; Hunt & Madhavaram, 2020). The term “vigilant” originates from the literature on organizational vigilance, where vigilance refers to a heightened state of awareness characterized by curiosity, alertness, and a willingness to act on partial information (Day & Schoemaker, 2006; Fiol & O'Connor, 2003; Levinthal & Rerup, 2006).

Vigilant market learning functions by detecting and interpreting immature signals — early indicators of changes in customer preferences and market trends (Day, 1994; Du & Kamakura, 2012; Guo et al., 2018). Through this capability, firms systematically scan, filter, and analyze market information to predict potential market opportunities in advance (Mu & Di Benedetto, 2012; Teece, 2007). This process enables firms to map market trajectories, forecast market signals and environmental cues, and identify opportunities for product improvement and new product development (Mu, 2015; Teece, 2007).

Consequently, a vigilant market learning system provides the foundation for firms to effectively adapt to volatile market environments and simultaneously meet both current and future market demands through improvements in existing products and the launch of innovative new products (Day, 1994; Du & Kamakura, 2012; Teece, 2007).

### **(2) Adaptive Market Experimentation**

Adaptive market experimentation is defined as a firm's capability to continuously experiment in the market and learn from these experiments (Day,



2011). This process involves testing innovative ideas on current and potential customers, collecting feedback, and systematically building market intelligence (McCardle et al., 2018; O'Connor & Ayers, 2005). Through this experimental approach, firms gain first-hand market knowledge regarding customers' latent needs and preferences, which is then transformed into valuable market insights that inform strategic decision-making (Guo et al., 2018). Furthermore, the insights derived from adaptive market experimentation are crucial in helping firms explore and identify new market opportunities and business domains (Hunt & Madhavaram, 2020; Wind, 2007). As a result, adaptive market experimentation serves as a strategic foundation for incremental innovation in existing products and breakthrough new product development, providing firms with unique market intelligence that is difficult for competitors to imitate.

### **(3) Open Marketing**

Open marketing is defined as a firm's strategic networking capability and relationships with external partners and stakeholders (Day, 2014; Guo et al., 2018). This approach facilitates the establishment of collaborative networks with partners with deep market insights and expertise in market dynamics (Day, 2014; Hunt & Madhavaram, 2020).

Through systematic interactions with network partners, firms can co-create and share market knowledge (Dyer & Singh, 1998; La Rocca et al., 2013). This, in turn, enhances access to differentiated market information and strategic resources held by partners (Mu & Di Benedetto, 2012).

As a result, firms can strategically leverage their partners' knowledge base and resources to identify new market opportunities (Dyer & Singh, 1998; Han et al.,



1998) and use these insights as a foundation for innovative product improvements and new product introductions (Day, 2011).

### **Prior Research on Exploratory Marketing Capability**

Since Day (2011) introduced the concept of adaptive marketing capability, empirical research on this topic has remained relatively limited. However, the key findings from existing studies are as follows.

**1) Impact of Adaptive Marketing Capability on Firm Performance:** Guo et al. (2018) studied Chinese B2B firms, comparing the effects of adaptive, specialized, and dynamic marketing capabilities. The study revealed that adaptive marketing capability had the most significant positive impact on financial and customer performance.

**2) Importance of Exploratory Marketing Capability in International Markets:** Reimann et al. (2021) confirmed the significance of exploratory marketing capability in international markets in a study. Their research focused on Portuguese SMEs and found that dynamic and adaptive marketing capability positively influenced firms' internationalization performance. Notably, as firms' level of internationalization increased, the influence of adaptive marketing capability became even more substantial.

3) **Moderating Effect of Competitive Intensity:** Reimann et al. (2022) examined the moderating effect of competitive intensity. Their study empirically demonstrated that the positive impact of adaptive marketing capability and market orientation on international performance strengthens as market competition intensifies. This finding highlights the

strategic importance of exploratory marketing capability in highly competitive environments.

**4) Short-Term vs. Long-Term Entrepreneurial Performance:** Li et al. (2022) investigated the differentiated effects of present and future-oriented exploratory marketing capability on entrepreneurial performance. Their findings indicated that both capabilities positively impact entrepreneurial performance; however, adaptive marketing capability primarily enhances short-term performance, whereas exploratory marketing capability contributes more significantly to long-term performance. This suggests that firms should develop a balanced approach to both capabilities based on their strategic goals and market conditions.

These studies underscore the growing importance of exploratory marketing capability in dynamic and competitive market environments.

## ***Marketing Innovation***

### **Characteristics of Market-Driven and Market-Driving Marketing Innovation**

We examined exploitative and explorative marketing capabilities. This section highlights how market-driven marketing innovation and market-driving marketing innovation differ in their utilization of customer, product, and market information and in the application of marketing capabilities (Jaworski & Kohli, 1993; Jaworski et al., 2000). These two types of innovation exhibit distinct differences across three key dimensions: customer, product, and market (Hills & Sarin, 2003; Narver et al., 2004) (see <Table 6.3>).



### **(1) Differences at the Customer Level**

One fundamental distinction between the two innovation types is their ability to influence customer needs, preferences, and behavioral changes in existing and new market domains (Jaworski et al., 2000; Kumar et al., 2000).

- Market-driven marketing innovation focuses on fulfilling explicitly expressed customer needs without altering their existing preferences or behavioral patterns. It primarily delivers similar product benefits to an already established customer segment (Narver et al., 2004).
- Market-driving marketing innovation, in contrast, seeks to identify latent customer needs (Narver et al., 2004) and actively shape consumer preferences and behaviors by creating new target market segments (Jaworski et al., 2000).

### **(2) Differences at the Product Level**

At the product level, market-driven and market-driving marketing innovations differ significantly in their reliance on business systems, types of learning, and the degree of marketing innovation they introduce (Hills & Sarin, 2003; Kumar et al., 2000).

- Market-driven marketing innovation depends on existing business systems (Kumar et al., 2000) and leverages accumulated knowledge in product and marketing domains (Hills & Sarin, 2003). It introduces incrementally new marketing methods for product commercialization (Kumar et al., 2000).
- Market-driving marketing innovation, on the other hand, involves creating new internal business systems, exploring novel knowledge, and introducing



fundamentally innovative marketing concepts and methods (Hills & Sarin, 2003; Kumar et al., 2000).

### **(3) Differences at the Market Level**

A key difference between the two innovation types lies in their ability to influence competitors' preferences and behaviors and their potential to permanently transform industry structures (Hills & Sarin, 2003; Jaworski et al., 2000).

- Market-driven marketing innovation cannot alter competitors' behaviors and preferences within an existing market (Jaworski et al., 2000).
- Market-driving marketing innovation, however, can reshape, educate, and lead customers toward new preferences and behaviors, ultimately influencing competitors to adapt their strategies in response (Jaworski et al., 2000). This type of innovation can catalyze shifts in industry dynamics, compelling other market players to change their competitive approaches accordingly (Hills & Sarin, 2003).

This structured comparison highlights the strategic implications of adopting either market-driven or market-driving marketing innovation, helping firms understand how to position their innovation efforts for competitive advantage.



Table 6.3: Differences between Market-Driven Marketing Innovation and Market-Driving Marketing Innovation (Tang, Zhang, & Peng, 2021)

Level	Dimensions	Market-Driven Marketing innovation	Market-Driving Marketing innovation
Customer	Target customer segments	Existing	New
	Customer needs	Expressed	Latent
	Changing customer behavior/preference	No	Yes
Product	Innovativeness	Incremental	Radical
	Business system employed	Existing	New
	Learning	Exploitation	Exploration
Market	Changing competitor behavior/preference	No	Yes
	Changing industry structure	No	Yes

## Elaborating Market-Driven & Market-Driving Innovation

### *Revisiting Definitions*

Innovation in marketing can take two primary forms: market-driven and market-driving innovations. While both contribute to firm value, they operate in distinct ways.

- Market-driven innovation refers to a company's response to existing market demands, focusing on incremental improvements within an established market structure. It enhances efficiency by optimizing existing customer relationships, packaging, promotions, and pricing strategies. This type of innovation is reactive, aligning with consumer preferences and behaviors rather than reshaping them.

- On the other hand, market-driving innovation disrupts or reshapes market structures, often anticipating latent customer needs or pioneering new categories. It focuses on effectiveness by creating new market segments, introducing groundbreaking marketing models, and altering consumer behaviors. Companies employing market-driving innovation tend to be visionaries, establishing new paradigms within their industries.

### *Examples of Marketing Innovations*

#### **(1) Examples of Market-Driven Innovation**

Several brands have successfully implemented market-driven innovations by optimizing their offerings within existing markets:

1. Coca-Cola's "Share a Coke" Campaign: This initiative personalized Coke bottles with popular names, enhancing consumer engagement without altering the core product or market structure.
2. Nike ID Customization Platform: Nike allowed customers to design their own sneakers, catering to personalization trends while maintaining its existing product line.
3. PepsiCo's Resealable Packaging: This improvement in packaging increased customers' convenience but did not create a new market.
4. Starbucks' Seasonal Promotions: The annual reintroduction of the Pumpkin Spice Latte capitalized on seasonal consumer preferences to drive sales.
5. Sephora's Beauty Insider Loyalty Program: This program incentivized repeat purchases by offering exclusive perks, reinforcing brand loyalty within its existing customer base.





## **(2) Examples of Market-Driving Innovation**

Conversely, market-driving innovations have led to the creation of entirely new market segments:

1. **Tide Pods by Procter & Gamble:** This innovation revolutionized the detergent industry by introducing pre-measured pods, creating a new market for unit-dose detergents.
2. **Swiffer Cleaning System:** Swiffer reshaped consumer habits and household cleaning practices by replacing traditional mops with disposable cleaning pads.
3. **Tesla's Direct-to-Consumer Model:** Tesla bypassed traditional car dealerships, disrupting the automotive sales industry.
4. **Netflix's Transition to Streaming Services:** By shifting from DVD rentals to on-demand streaming, Netflix created and dominated a new entertainment market.
5. **Airbnb's Peer-to-Peer Rental Model:** Airbnb transformed the hospitality industry by enabling homeowners to rent their properties and redefining travel accommodations.
6. **Amazon Alexa and Smart Home Integration:** Amazon established the voice-assistant market, setting new standards for AI-driven home automation.

## **(3) Key Takeaways**

- Market-driven innovation enhances existing markets through incremental improvements, focusing on efficiency and consumer engagement.



- Market-driving innovation creates or reshapes markets, often disrupting industry norms and leading to new revenue streams.
- While both contribute to firm value, market-driving innovation has a significantly greater impact on long-term market influence and financial returns.

By understanding these differences, firms can strategically decide whether to focus on market-driven innovation to maximize short-term efficiency or market-driving innovation to establish industry leadership and long-term growth.

#### **4. Empirical Evidence of Marketing Capabilities & Marketing Innovation**

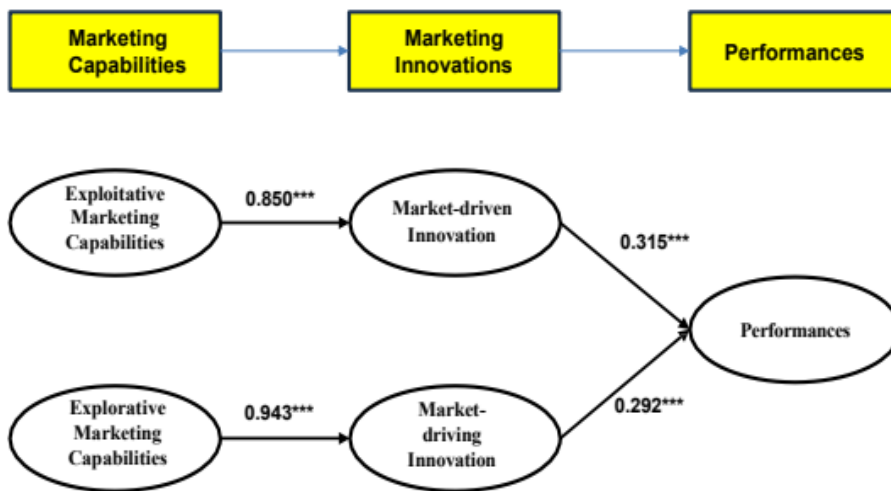
So far, we have examined marketing capabilities and marketing innovations. I am conducting an empirical study as part of an ongoing research paper with my colleague researcher. A survey-based empirical study was conducted among 500 managers from small and medium-sized enterprises (SMEs) in South Korea between September and December 2024.

As hypothesized in the theoretical framework, the findings significantly confirm that explorative marketing capabilities positively impact market-driven innovation, which, in turn, demonstrates a positive relationship with firm performance. Similarly, explorative marketing capabilities positively influence market-driving innovation, which positively relates to firm performance (see [Figure 4]).

These results provide empirical evidence supporting the existence of dual routes through which marketing capabilities impact marketing innovation and performance. From a corporate perspective, firms must carefully allocate and manage resources along these dual routes. This result underscores the



importance of ambidextrous management (O'Reilly III & Tushman, 2021), reinforcing the strategic management theory that balancing exploitative and explorative approaches is critical for corporate growth. Our findings suggest that this principle should also be applied in the field of strategic marketing.



Measurement Model Fit Analysis Result: 232.68 (chi-square), 107 (df), TLI (.980), CFI (.986), RMSEA (.049), SRMR (.020)

Structural Model Fit Analysis Result: 305.89 (chi-square), 49 (df), TLI (.946), CFI (.960), RMSEA (.103), SRMR (.059)

Figure 6.4: The Dual Routes from Marketing Capabilities through Marketing Innovations to Performances (Im & Lee, 2024)



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