

The yin and yang of outside-in thinking

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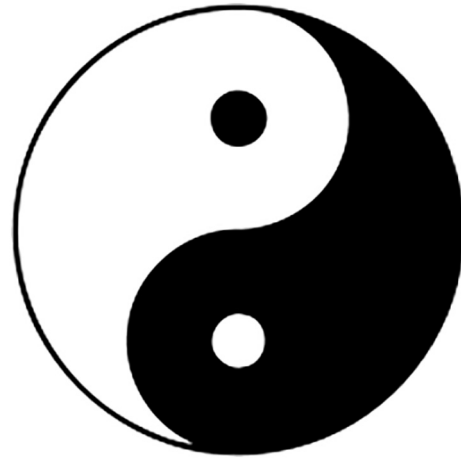
ABSTRACT

An outside-in approach to making a marketing strategy starts with the leadership team stepping outside the boundaries and constraints of the organization as it is, and looking first to the market for guidance: How and why are the needs and behaviors of current and prospective customers changing? What can we do to solve their problems and help them succeed? What new competitors are poised to meet these needs? What moves by others in the ecosystem could help or hurt us? Conversely, inside-out approaches start with the existing resources and capabilities of the organization and ask how they can best be applied and leveraged. Superior strategies emerge when these two approaches are integrated in an iterative, learning process.

1. Introduction

Gratifying progress is being made to advance the outside-in perspective on strategy making and marketing capabilities. It is timely, with this special issue, to push forward on the next frontier of integrating the outside-in and inside-out approaches. With notable exceptions (Mu, Bao, Sakhon, Qi, & Love, 2018) these two approaches have been seen as alternatives, or at best complements. My purpose in this commentary is to make the case that each should reinforce the other to realize superior performance.

The concept of dualism of yin and yang in ancient Chinese philosophy is an apt expression of the desired interaction of outside-in and inside-out approaches. This dualism describes how seemingly contrary forces or approaches are actually complementary and interrelated; one gives rise to the other. To achieve organizational balance both approaches need to be employed and tightly integrated, as implied by the familiar Tai Chi symbol:



This symbol also highlights the interdependency of the two approaches, and the difficulty of conceptually untangling them (Henderson & Mitchell, 1997). To start this untangling, I will first *contrast* the outside-in and inside-out approaches, and propose a way to integrate them with an iterative, learning process. Finally, I will also look at some of the integrating mechanisms that organizations might productively use.

2. Contrasting the approaches

The inside-out approach is grounded in the resource-based view

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(RBV) of the firm. The essence of the RBV is that scarce, inimitable, and valuable resources (such as patents, facilities and brands) exist to be used (Barney, 1991). It follows readily that the task of management is to improve and fully exploit these resources (Makadok, 2001). This puts an emphasis on internal efficiency improvements and short-term cost cutting moves. As a starting point for strategic thinking the RBV myopically narrows and prematurely anchors the dialogue to what exists now, versus what might be possible in the future.

An apt diagnosis of the limits of inside-out thinking is the observation by Shin Sakane (Unger, 2018), a leading Japanese innovator, on the problems of slow growth companies:

“The most important factor is finding a theme to work on. Many Japanese companies manage to make steady profits, but they don't produce the new products or services that they might. Instead of finding a theme, they focus on the technologies they already have, and the value they already know how to create. I think this is one of the core reasons for their not growing.

For example, some electronics companies – active in the electronics world, with global sales and marketing networks – have narrowed their scope to niche categories, like liquid crystal TV. They use the same core materials, and reach for the same resources, each time. It's better to look for a theme based on customer needs. What do people want that they don't have yet and that isn't available elsewhere?”

There is less consensus on the meaning of the outside-in approach – contributing to conceptual confusion. It has been variously described as a set of capabilities (market sensing, customer engaging and connecting with partners (Mu, 2015, Mu, Mathewson, Maran, & Di Benedetto, 2018), or a perspective that “focuses outside the firm, *toward* the markets in which it competes...” (Saeed, Yousafzai, Paladino, & DeLuca, 2015). We have highlighted “toward” which implies standing on the inside and look outward. Both these descriptions are in the right spirit, but don't get to the essence of what outside-in really means as a mental model and set of behaviors that can be modeled throughout an organization.

We propose that the outside-in approach is an *orientation* to strategic issues, a mental model that is *empathetic* to external stakeholders, and a *decision priority*. It starts with the leadership team stepping outside the boundaries and constraints of the organization as it is, and looking first to the market for guidance: How and why are the needs and behaviors of current and prospective customers changing? What can we do to solve their problems and help them succeed? What new competitors are poised to meet these needs? How can we derail their efforts? What moves by others in the ecosystem could help or hurt us? The goal is to expand and enrich the strategy dialogue, create a richer set of opportunities and be alert to looming threats.

3. Integrating the approaches with an iterative learning process

This learning process seeks to find the balance of exploratory and exploitative activities to generate current earnings and fund continued growth (Mu, 2015). It necessarily begins with expansive outside-in questions to set the broad context for inside-out considerations of customer and brand assets to be protected and leveraged, capabilities to be applied, and constraints to be considered. Outside-in thinking respects but subordinates inside-out factors within a wider setting. Each iterative cycle begins with a wide-angle outside-in lens, creating new insights and deeper questions that feed the next cycle through cumulative learning.

3.1. Constraints to consider

In the dynamic capabilities framework the move from “sensing” from the outside in, to “seizing” the potential opportunities has to consider the inside-out capabilities and assets available to pursue and exploit the opportunities (Baden-Fuller & Teece, 2019; Teece, 2007).

What an organization can realistically accomplish is both enabled and constrained by the trajectory of the organization (creating path dependencies) and prior commitments to strategies and resources. Future strategic choices also involve investment commitments that become future constraints to the extent they are irreversible. Jeff Bezos emphasized this in his letter to Amazon shareholders in 2016:

“Such decisions are consequential and irreversible or nearly irreversible – one-way doors – and these decisions must be made methodically, carefully, slowly, with great deliberation and consultation. If you walk through and don't like what you see on the other side, you can't go back to where you were before.”

The more firm-specific or specialized an investment – and hence, whether it has any value in another use, the greater the degree of irreversibility.

Commitments to past strategic choices also impose constraints in terms of existing routines, structures, culture norms and beliefs and behaviors, and human resources. Seizing of future opportunities requires deeper commitment that put constraints on future actions, so it may be expedient to maintain flexibility with methods such as partnering, outsourcing and building multi-purpose facilities and capabilities.

Regarding the benefits of starting with a wide lens, what matters most in realizing the benefits of integrating the two approaches is starting with an expansive outside-in perspective. Starting narrowly with an inside-out perspective, by asking, “how can we play our hand of cards better?” anchors the thinking of the organization in the present, and frames the diagnosis narrowly around the current situation and resources. There are three benefits to starting from the outside-in.

- *Anticipation.* Outside-in thinking naturally asks questions about how the outside world is changing, and unleashes creative thinking about the implications. The pay-off comes from seeing opportunities and threats sooner. The early mover invariably has an edge over the reactive responses of later entrants who have fewer degrees of freedom.
- *Adaptation.* When everyone in the firm is attuned to the customer experience and their pain points, there is more likely to be a wide-ranging and on-going search for pain relief. Are deliveries either too early or too late for the customer? Are customer service reps watching the clock and leaving callers frustrated? This is the essence of continuous improvement or Kaizen approaches.
- *Alignment.* When outside-in thinking is infused in the organization there are fewer turf-battles and more collaboration; resources are used more productively. Customers applaud because they benefit from clear accountability for their welfare. They aren't left in limbo while navigating between functional silos.

These benefits from anticipation, adaptation and alignment are hard to realize. They are readily subverted by complacency (“we have mastered the recipe for success”) and short-run performance pressures that put inside-out thinking in control. Overcoming these centripetal forces takes vigilant leaders who keep making the case and clear commitment to a strategy approach that starts from the outside and then looks inward.

4. Summary: possible integrating mechanisms

Advocating the integration of the outside-in and inside-out approaches has a certain logic, and this commentary is a start toward building a compelling case. An indication of the possible mechanisms and the magnitude of the managerial challenge is provided in my review of marketing excellence with Moorman and Day (2016). We focused on four elements of marketing organization – capabilities, configuration, human capital and culture. Each of these elements could serve as an integrating force:

“Marketing leaders are *integrating agents* that facilitate coordination by directing the development or deployment of capabilities, the selection of metrics and incentives, the cultivation of cultural values, and the design of structure. A market-oriented culture reflects *integrating values* that align mindsets, motivations, and behaviors to a set of deeply held values. A firm’s marketing capabilities are *integrating processes* that facilitate coordination by dictating action steps, communicating cultural values, and producing organizational structures to get work accomplished. *Integrating configurations* such as organizational structures and control systems coordinate action by directing attention and facilitating information flows.”

Let me conclude by repeating and endorsing the plea of the editors of this special issue to “encourage and facilitate dialogue among (disparate) research communities.” (Mu, Mathewson, et al., 2018). We are indebted to them for undertaking this initiative to “advance outside-in thinking and marketing.” They are surely correct that it will move us collectively out of our comfort zones, but the benefits make this worthwhile.

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