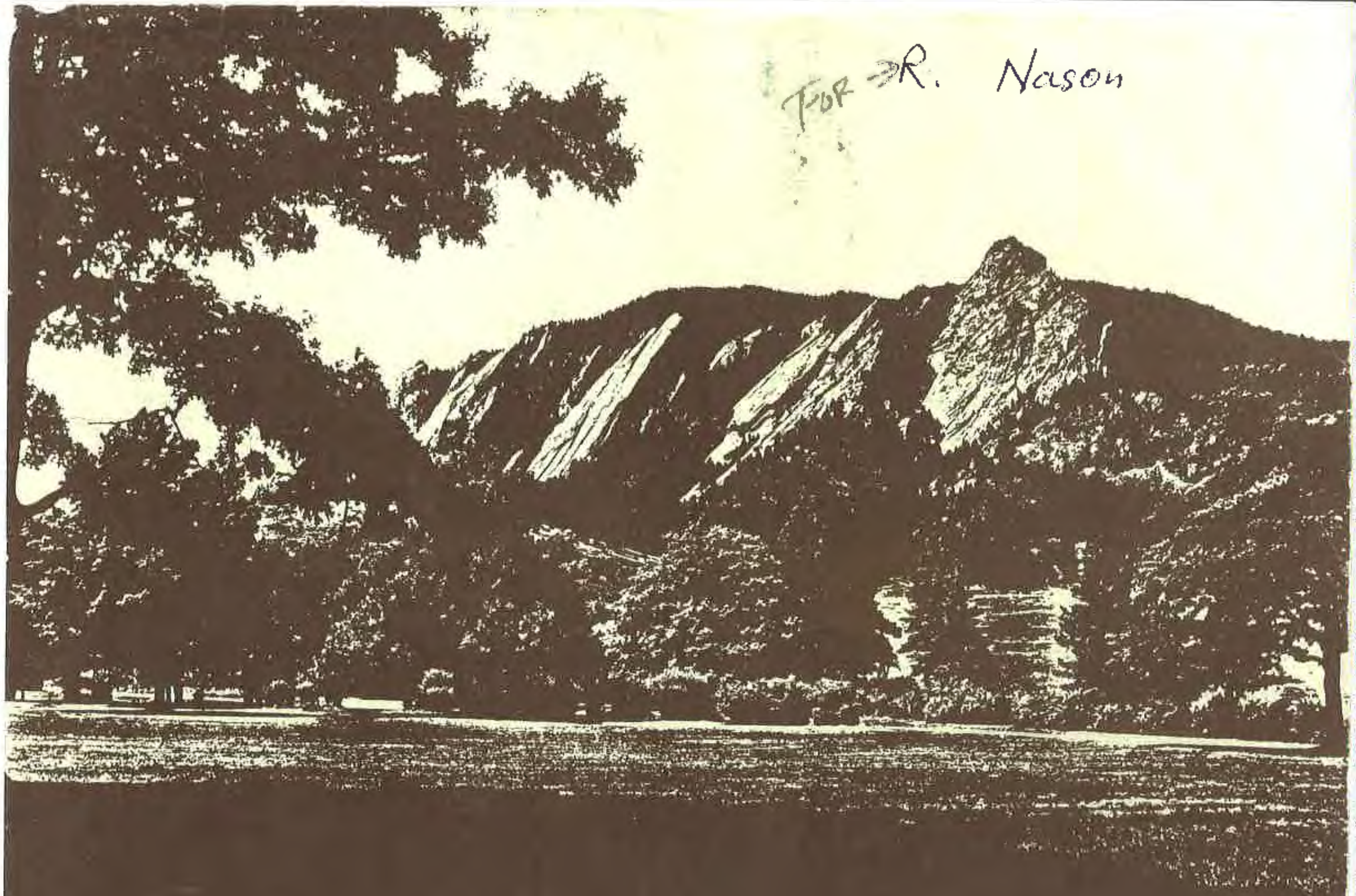
For Dr. Nason



MACRO-MARKETING

Distributive Processes from a Societal Perspective

Edited by Charles C. Slater

Business Research Division
Graduate School of Business Administration
University of Colorado
Boulder, Colorado

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The Proceedings of the Macro-Marketing Seminar
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TABLE OF CONTENTS

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I

INTRODUCTION

Some marketers have been concerned for a long time with the societal impact of both the organization and performance of the distribution system. The past decade has seen several large-scale studies of the marketing systems of underdeveloped communities as well as heightened interest in the relationship of business to society in industrial communities. Of special concern has been how the marketing system serves people with low incomes.

These studies have much in common in their goals and methodologies, which led to the idea of a seminar to bring together scholars who share such research interests. The Macro-Marketing Seminar held at the University of Colorado in August 1976 was the result of this idea. Invitations were sent to individuals who, judged by their publications and other professional contributions, shared an interest in marketing from a societal perspective. Papers were invited, and conference discussion focused on these papers. Participants came from as far away as Israel and Hawaii.

The seminar drew on the tradition of the Marketing Theory Seminars that had been held over the past two decades here at the University of Colorado and at other universities, notably the University of Vermont.

The purpose of this first Macro-Marketing Seminar was to clarify and identify the boundaries of macro-marketing. The common thread of the papers and discussion was the systems concept of putting marketing in the context of both the firm and the society. Participants indicated great concern for feedback between the production center and interested parties to the marketing of a firm or the marketing system which is the channel for distribution in the society.

The very diversity of what each of the participants felt to be relevant to the problems of applying marketing skills to deal with societal problems attests to the vigor of marketing as an eclectic discipline. However, three ideas emerged as important in the discussions following the presentation of the papers. Those themes will no doubt be important to the session planned for next year.

First, the distinction between marketing from societal perspectives - macro-marketing - and marketing from the perspective of the firm - micro-marketing - seems to be dependent on the objectives. If the objectives considered are those of the firm, then the problems may not justify macro-marketing analysis. If, on the other hand, the interests of society are to be given consideration, the problem is macro-marketing, and methods, as well as the results of planning and analysis, are likely to be different. If there are multiple objectives and constraints under which a marketing problem is considered, and if there are objectives in addition to maximizing profit, such as ecological and social concerns, macro-marketing techniques may be involved.

A second conclusion of the seminar was the recognition that who the marketing decision-makers are largely determines whether a problem will be considered as a macro-marketing problem. For example, if those guiding the objectives are all members of one group, such as functional managers, their approach will likely be motivated by the internal benefits to the firm. On the other hand, if decision-makers are made up of persons from many groups, such as suppliers of materials, members of industry, government representatives, and consumers, the decisions will more likely be of concern to the whole of society.

A third important conclusion of the sessions was the need for a hierarchy of objectives for macro-marketing. Only partially resolved by the participants was whether marketing techniques used at the micro level could be expanded to deal with macro-marketing problems and whether the presence of public policy issues makes a problem a macro-marketing issue.

The conference produced lively debate and a consensus that expanding the understanding of marketing problems from a societal perspective would assist in understanding marketing from a micro perspective as well. Drawing new boundaries around the whole field of marketing by encompassing macro-marketing has an effect on this applied discipline. Marketing has always been an applied area with the implicit normative goals of serving the needs of the firm. Now, by adding societal needs as a criteria for what is done under the name of marketing, the processes of distribution can be studied more fully and easily as a descriptive process.

The papers that follow reveal the broad pattern of interests that are seen by their authors as relevant to the topic of marketing from a societal perspective. I hope that this volume will stimulate inquiry and spark the interest of those not previously familiar with these areas of study. I hope too that this collection of papers moves the field of marketing further in the directions that make marketing more useful to society. It remains with the reader to decide.

II

THEORETICAL ISSUES

The six theoretically oriented papers range from the epistemologically focused papers of Bagozzi and Hunt to the historical perspectives offered by Greif and the Blair-Uhl papers to the operational theoretical models presented by Etger and Slater. Viewed as a group, these papers identify the definitional problems of the field; make some tentative contributions to resolution of these issues, then briefly review the historical contributions to resolution of these issues, then briefly review the historical process that leads to concerns for macro-marketing. The papers present two theoretical frameworks for evaluation of marketing from a societal perspective.

The contributions that Bagozzi and Hunt make are critical to the problems of definition of this novel categorization -- macro-marketing. Bagozzi offers a conceptual framework that allows behavioral attributes of micro-marketing to be distinguished from macro-marketing. To this conceptualization he applies some tests of logical analysis. This provides a theoretical structure that is then examined in terms of a concrete example. This paper provides a link to epistemological research literature.

Hunt's paper is truly a product of the seminar for his Journal of Marketing article (July 1976 issue) was a subject of interest to the seminar. The evolution of the discussions is portrayed in this paper and grow from his interest in defining and developing a marketing doctrine. Hunt's conclusions are his own but do reflect the evolution of the thinking of many of the seminar participants.

Edwin Grief's paper presents his unusual historical perspective on the evolution of marketing doctrine. He draws attention to Wroe Alderson's contributions to theory and to the tradition of the seminars that occurred at Vermont and the University of Colorado and links this prior work to the challenge of this seminar. Blair and Uhl describe how Alderson's work links to the seminar's concern for a more general theory of marketing by contrasting the earlier economic oriented general analysis to the behaviorally oriented micro applications of the recent trends of marketing interests.

Etgar identifies three models of market coordination and tests these against data found in an industry with limited differentiation -- casualty insurance. This paper provides some new pragmatic techniques that will likely prove to be effective for a broad range of applications. It is perhaps, of all the papers, the paper that best bridges the links between micro- and macro-marketing. Slater's paper evolves from simulation modeling designed to assess societal pay-offs associated with alternative marketing development strategies. It is an attempt to link marketing theory to the Keynesian doctrines of macro-economics, for it is a demand driven model of market processes.

As a group the theory papers range from definitional to historical and doctrinal interests in the complex phenomenon of macro-marketing.

MARKETING AT THE SOCIETAL LEVEL: THEORETICAL ISSUES AND PROBLEMS

by

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Marketers have long been concerned with the behavior and structure of marketing at the societal level. Breyer (1934, 1964), for example, was one of the first to break from narrow, managerial concerns dealing with problems of the single firm when he viewed marketing channels in terms of flows and structure. Duddy and Revzan (1947) presented an early framework depicting marketing as "an organic whole made up of interrelated parts, subject to growth and change and functioning in a process of distribution that is coordinated by economic and social forces." Similarly, Alderson (1957, 1965) was a leading advocate of the holistic perspective, particularly in terms of macrofunctionalist concepts (for an analysis of functionalism in marketing, see Nicosia, 1962).

More recently, interest in marketing at the societal level has grown in numerous directions. Marketers now study marketing productivity, minority marketing, comparative marketing systems, community marketing, social marketing, and marketing in developing countries to name a few lines of inquiry. Some even define and view the entire discipline in a macro sense (cf., Arndt, 1976; Fisk, 1974 a, b).

The development of what has come to be known as "macro-marketing" has had mixed consequences, however. On the one hand, the many areas of macro-marketing address important, neglected aspects of marketing behavior; namely, large-scale, long-run phenomena and the structures and processes of marketing organizations, groups, and collectivities. Macro-marketing has been at the forefront of recent treatments of social responsibility, particularly in regard to the role of marketing in the quality of life, social consumption, and the disadvantaged consumer. Moreover, macro-marketing has injected a sense of vitality into the discipline at a time when its critics are perhaps most vocal and environmental challenges such as shortages are especially salient.

On the other hand, macro-marketing poses knotty problems for the marketing scholar. The many areas of macro-marketing lack a sense of coherence. No accepted criteria exist for subsuming existing phenomena, or deriving new phenomena, under the rubric "macro-marketing." In fact, considerable controversy can be found within the ranks of marketers as to what constitutes the subject matter of the discipline. Some scholars, for example, question the utility of what has been called social marketing since "broadening marketing to include activities of nonprofit organizations may dilute the content and meaning of marketing and turn the attention away from the critical issues facing the discipline" (cf., Arndt, 1976; Luck, 1969, 1974; and Bartels, 1974). Others have defended the broadening of marketing (cf., Kotler and Levy, 1969 a,b; Levy, 1976) and have even suggested a metatheory for the determination of the meaning of marketing that is grounded in the philosophy of science and the behavioral sciences (Bagozzi, 1976a). Overall, the growth of macro-marketing is perhaps hampered by a lack of a well-developed general theory of the discipline.

The lack of focus and ambiguity in the concept of macro-marketing poses an obstacle for growth of knowledge in the area as well as for an accumulation of benefits to consumers, special interests, and the general public who are the ultimate beneficiaries and patrons of marketing at the societal level. It is a truism in science that one cannot hope to discuss, understand, explain, or use a concept unless one knows and can state what the concept and its object predicates entail. Before macro-marketing can grow, be taught, applied, and effectively criticized, it must be defined, delimited, and related to existing knowledge and sound theory in both the marketing discipline and other areas of the behavioral sciences.

The purpose of this article is to explore the concept of macro-marketing in greater depth. The discussion begins with one framework for defining and viewing the phenomenon. Next, certain philosophy of science issues are noted. Included in the treatment are problems in conceptualization and theory building. An attempt is made to ground macro-marketing in the language of the behavioral sciences. Following this, three major schools of thought in macro-marketing are briefly outlined and analyzed.

MACRO-MARKETING DEFINED

The distinction between micro and macro phenomena appears to be a fundamental one that has arisen in most of the behavioral sciences. In economics, Keynes (1936) broke from the classical viewpoints of the day which primarily addressed problems of the individual firm. His macro-economics stressed that aggregates (e.g., consumption, investment, savings) were legitimate concepts for analysis, and he proposed models interrelating aggregates in order to study aspects of the economy as a whole. In sociology, Firth (1951) was one of the first to distinguish between macro and microsociology, although the first book to bear the title "Macro-sociology" did not appear until 1970 (Coleman, Etzioni, and Porter, 1970).

Similarly, in management disciplines such as organization behavior, in psychology, political science, and anthropology, the division between the micro and macro can be discovered. Typically, the micro approach was the first to develop, while the macro emerged considerably later.

Given that knowledge has tended to accumulate dichotomously in marketing and her sister disciplines, one might ask why this has been so--what functions has this served. One reason for the division is probably a pragmatic one. Teachers find it convenient to segment the subject matter in order to better transmit knowledge, and one logical basis for segmentation is the micro/macro distinction. Over time, the distinction has generated a number of consequences. In addition to achieving legitimation and institutionalization through specific course offerings, separate texts and reading books, special sessions at professional meetings, etc., scholars have tended to gravitate to the micro or macro viewpoint in their research activities. This has had the effect of creating somewhat autonomous systems of thought which work internally to perpetuate their own subject matter and values. Still another reason for the division is the fact that the subject matter and methodologies characteristic of the micro and macro approaches are fundamentally different. Although one might argue that micro- and macro-marketing phenomena share a conceptual base (i.e., both are aspects of the parent concept of marketing), the fact that no accepted general theory of marketing exists makes it difficult to discern the common properties in both phenomena. Granted the convergence, it is still possible to point out differences. For example, the unit of analysis in micro-marketing has tended to be that of the individual consumer or firm while that in macro-marketing has been aggregates of consumers or firms, patterns of relationships among consumers or firms (e.g., structure), or other social phenomena. Similarly, the methodologies employed in micro-marketing have tended to include the experimental method, in-depth interviews, survey techniques, participant observation, or focused group interviews, while macro-marketers have relied more on the comparative method, archival searches, longitudinal case histories, and at times also surveys. Finally, much of micro-marketing has assumed the value orientation of the firm in the sense of asking how marketing managers may achieve the responses necessary for the firm's survival. Macro-marketing, on the other hand, has tended to be less normative and more explanatory oriented. This latter contrast between the micro and macro is beginning to disappear, however, as exemplified in recent developments in marketing exchange theory where the focus has shifted from managers attempting to influence exchange behavior to the understanding of that behavior (cf., Bagozzi, 1975; 1976 b; Bagozzi, et al., 1976).

In addition to the pragmatic and intrinsic aspects of the macro/micro distinction, one might note that both areas of inquiry can serve to stimulate marketing thought. As the approaches crystalize and vie for audiences in journals and professional meetings, one might hope for an integration and synthesis of micro- and macro-marketing in a general theory of the discipline. Until then, however, the distinction appears to have its uses.

Conceptualizing the Phenomena for Study

But what is macro-marketing? To answer this question, we must examine the subject matter or scientific problems to be explained in marketing in greater depth. In general, it is possible to classify marketing phenomena in four broad categories that range roughly from the behavior or characteristics of single actors or things to complex patterns or relationships among many actors or things (see Table 1).

The first category encompasses the behavior and characteristics of individual actors and/or the attributes of single marketing entities. Actors may entail a consumer, a wholesaler, a salesperson, a manufacturer, or some other agent. Marketing entities refer to inanimate objects or conceptual things used as items of exchange, as a means to create, avoid, or influence exchanges, or as symbols in everyday activities of consumption. Most of the research and publications in marketing journals in recent years has focused on explaining phenomena in this category.

The second category encompasses dyadic relationships between marketing actors. Dyads refer to two-person, two-group, or two-organization interactions. It should be stressed that the defining characteristic of an exchange is the social relationship existing between actors. An exchange is not designated by the properties of the actors in the relation or even solely by the actions of those actors. Further, it is not, as sometimes thought, equivalent to a stimulus-response sequence of communication, rewards, or punishments emanating from one actor to a second actor and back to the first. Rather, an exchange is characterized by the connections, shared experiences, interdependencies, social processes, or conflict occurring between social actors. These relationships are inferred from events, actions, or other observable phenomena and often depend upon shared meanings mediating the exchange, however.[1]

Moving to a more macro level than the dyad, the third category of marketing phenomena can be seen to consist of networks of relationships connecting marketing actors. One subclass of such phenomena includes sequences or patterns of dyadic exchanges. For example, the vertical marketing system can be viewed as a sequence of open-ended exchanges known as complex chain exchange (manufacturer ⟷ wholesaler ⟷ retailer); and

Table 1

CONCEPTUALIZATION OF MARKETING PHENOMENA

Category	Example	Integrating Rubric
1. Behavior and characteristics of individual actors or attributes of single marketing entities.	A consumer's attitudes, life style, personality, background, needs, preferences, etc. A firm's costs, profits, strategies, size, location, etc.	
	A salesperson's tactics, performance, closing ability, motivation, etc. An advertisement's size, location, use of color, information, effect, etc. A product's cost, price, safety features, texture, etc.	Micro-Marketing
2. Dyadic relationships between marketing actors	Wholesaler-retailer cooperation Customer-salesperson exchange FTC-manufacturer conflict Other two-party relationships	
3. Networks of relationships connecting marketing actors	The channel of distribution as a series of flows, exchanges, etc.	
	The interpersonal decision-making processes of a buying center.	
	Power and accommodation among family members in consumption activities.	
4. Societal patterns or systemic relations among marketing actors	Behavior of aggregates such as fluctuations in price of a product class, purchases by a class of buyers (e.g., females over 40 in Los Angeles), percentage of new product adoptions by those exposed to an advertisement, etc.	Macro-Marketing
	Emergent phenomena such as consumer movements, fads, hoarding, trade associations, cartels, collusion, etc.	
	Relationships among collectivities such as competition in an industry.	
	The structure or pattern of actions or attributes among marketing entities.	

many other marketing exchanges entail closed systems of exchange known as complex circular exchange, $A \longleftrightarrow B \longleftrightarrow C \longleftrightarrow A$ (cf., Bagozzi, 1975). A second subclass of phenomena under the "networks of relationships" category describes interpersonal relations among members of groups or organizations. The decision making or influence processes in the buying center or in the family are two examples.

Finally, the fourth category of marketing phenomena refers to societal patterns or systemic relations among marketing actors. In particular, three subclasses may be identified. The first deals with marketing aggregates. For instance, when the marketer is interested in studying the quantity demanded of a product as a function of advertising and price, he or she is examining relationships among aggregates (cf., Nerlove and Arrow, 1962). A second subclass addresses emergent phenomena. Emergent phenomena refer to patterns of social relationships having properties and consequences greater than and different from the actions of the individuals comprising those relationships. Typical marketing examples include consumer movements, trade associations, and cartels. Finally, a third subclass of marketing phenomena under the fourth category of Table 1 comprises structural relations among abstract marketing entities. Structural relations may occur at many levels. For example, at the level of the firm, one may investigate the causes and consequences among such structural variables as organizational complexity, centralization, formalization, productivity, size, and technology. In order to obtain variability in these variables, one must look across organizations and/or time, and this fact makes such studies more macro in orientation. Similarly, at the level of industries or collections of firms, one may investigate market structure or other structural relations.

A number of comments with respect to the categories of marketing phenomena deserve mention. The first category differs in kind from the remaining three. Its focus is on the behavior or characteristics of individuals or attributes of single marketing entities. The other three categories, in contrast, represent differences in degree in that they depict varying levels of social behavior. Although it is a somewhat arbitrary choice where to break a continuum, this author proposes that the micro/macro distinction be made between the second and third categories. Thus, it is proposed that marketing theory and practice dealing with behavior of individuals, the attributes of single entities, and dyadic exchanges be termed micro-marketing and that networks of relationships, societal patterns, and structural phenomena be labeled macro-marketing. Such a distinction has the virtue of conforming to much of common usage in the discipline, and more importantly, it is based on an explicit definition of the dimensions of phenomena as they exist in the world of commerce and exchange.

Some Conceptual Issues

The investigation of marketing at the macro level poses a number of problems relating to the very authenticity of concepts at that level. Three basic problems will be discussed; namely, the problems of reductionism, reification, and transpositional connectiveness.

Reductionism. Reductionism refers to the "idea that the principles explaining one range of phenomena are adequate for explaining a totally different range of phenomena--for example, the idea that human social behavior is ultimately psychological, or that human psychological behavior is ultimately biological" (Hoult, 1972, p. 267). Applied to marketing, one may identify at least two types of reductionism. One type suggests that macro-marketing phenomena (e.g., behavior of aggregates, relationships among firms) can be reduced to dyadic exchanges. Bagozzi, et al. (1976) take this position when they define and develop the dyad as the fundamental building block for marketing relationships. This position maintains that more complex patterns, structures, and processes of social behavior at the macro-marketing level may be accounted for by the simplest, irreducible concept of social behavior, the dyad. The second type of reductionism goes even farther in that all marketing behavior is presumed reducible to the actions or characteristics of individuals, particularly as represented in psychological pheneomna and laws.[2] This is equivalent to reducing the phenomena appearing in categories 2-4 in Table 1 to that in the first category. But notice that such a claim involves a transition from one nominal class of phenomena to another. That is, it explains essentially social phenomena involving two or more people, groups, or organizations by psychological phenomena restricted by definition, to the actions, thoughts, feelings, etc., of a single individual. The transition is one in kind, not degree. Theory building with dyadic exchange concepts, in contrast, is a matter of degree, not a difference in kind. Complex social behavior is explained with simpler social concepts. As a result, there is reason to question the second form of reductionism on a priori grounds since the validity of explaining social phenomena with psychological concepts and the transference or translation of social laws to psychological laws has not been demonstrated in theory or practice. From a conceptual standpoint, the first form of reductionism violates no problems in logic, and it has the virtue of receiving empirical support from various areas of the behavioral sciences (cf., Bagozzi, et al., 1976).

Nevertheless, the issue of reductionism is one that remains yet to be fully resolved in the behavioral sciences. Well-reasoned arguments have been marshalled in its favor (e.g., Addis, 1975; Homans, 1964) as well as in opposition (cf., Webster, 1973; Koestler and Symthies, 1969; White, 1949, pp. 22, 29, 34-35).

For the scholar of macro-marketing phenomena, the issue of reductionism is important for a number of reasons. First, resolution will dictate which classes of concepts are admissible in theories in both a logical and empirical sense. For the researcher following the second form of reductionism noted above, for example, it is unnecessary, and indeed even unscientific and misleading, to explicitly model shared or collective behavior, symbolic processes, cause-and-effect among "social facts" such as structural variables, emergent phenomena, and cultural behavior. For those advocating the first form of reductionism and for those denying that reductionism is valid, however, the above phenomena legitimately comprise the subject matter of macro-marketing. A second reason for addressing the issue of reductionism lies in the problems of measurement and methodology. Measurement is especially a problem for the topic of reification (discussed below) and for those dealing with the most macro phenomena in marketing. This is the case since methodological individualism requires that if behavioral theories are to be grounded in empirical facts they must contain observations of individuals. With respect to the methods used to gather data and the mathematical, logical, or statistical methods used to model theory, reductionism makes different demands. Reductionism to the level of psychology or beyond requires merely a recording of observable events and the direct application of natural science methods and mathematical models.

A rejection of reductionism requires, in addition, the collection and representation of the meaning of acts, events, or objects--a fact often overlooked by those applying the so-called rigorous methodologies (cf., Keat and Urry, 1975, Chap. 7; Truzzi, 1974).

Reification. Reification denotes "the ideological distortion by which social phenomena are seen not as constructions of human activity, but as material things having natural rather than social properties" (Keat and Urry, 1974, p. 138; see also, Berger and Luckmann, 1966, p. 89). As Kaplan (1964) notes:

> "data for behavioral science are not sheer movements but actions--that is, acts performed in a perspective which gives them meaning of purpose. Plainly it is of crucial importance that we distinguish between the meaning of the act to the actor (or to other people, including ourselves, reacting with him) and its meaning to us as scientists, taking the action as subject-matter. I call these, respectively, act meaning and action meaning . . . behavioral science is involved in a double process of interpretation . . . The behavioral scientist must first arrive at an act meaning, that is, construe what conduct a particular piece of behavior represents; and then he must search for the meaning of the interpreted action, its interconnections with other actions or circumstances. (p. 32) . . . act meanings are inferred from actions and are then used in the explanation of the actions, or actions are construed from the acts and then used to explain acts (p. 362)."

If Kaplan's insights are found to be valid, as many philosophers of science believe, then it may not be sufficient, for example, for marketers to explain aggregate behavior of individuals solely with other aggregate concepts (or even structural variables with other structural variables). That is, from a scientific viewpoint, it may be necessary to include measurements of act meaning in one's macro-marketing models. For instance, if one would desire to avoid the charge of reification when using a demand model similar to the Nerlove and Arrow (1962) one noted earlier, it would be necessary to explicitly represent consumer reactions (including subjective meaning) to advertising and price. As it stands, the model does not represent the mechanisms or cause and effect processes underlying how advertising affects sales (i.e., the processes are assumed in the original model). This omission forces one to withhold the attribution of theory to the model (see discussion below on Theory Building in Macro-marketing). In an engineering or technological sense, however, such "theories" have proven valuable for managers.

Transpositional Connectiveness. Transpositional connectiveness refers to the nature of relationships among the four categories of marketing phenomena in Table 1.[3] For example, the productivity of firms (either individually as in category 1 or collectively as aggregates as in category 4) may be explained, in part, through coalitions of suppliers or competition or through the integration of separately owned firms related to the focal firm (thus involving explanatory concepts from category 3). Transpositional connectiveness designates cause-and-effect processes across categories of marketing phenomena.

The issue of transpositional connectiveness poses a dilemma to marketing scholars. On the one hand, the incorporation of explanatory concepts from other levels of analysis offers the promise of enriching theories, enhancing prediction, and aiding the decision maker or social planner who would strive to alter the performance of a marketing system. Organization behavior researchers have been perhaps the most active in such analyses, particularly in their study of joint programs among organizations. Hirsch (1975) briefly reviews the research in this area which deals with the "functions performed by coalitions i.e., social cooperation of . . . management organizations in negotiating at the institutional level on behalf of their respective members for societal resources and legitimacy" (see also, Zald, 1970;

Parsons, 1960). A second line of inquiry in organization research which illustrates the analysis of behavior across categories of phenomena is the new generation of organization-environment models. Three developments seem most promising for marketers. First, researchers have refined their definitions of the environmental phenomena that impinge on an organization and have empirically verified their effects. For example, environmental complexity, variability, and illiberality have been identified as important phenomena (cf., Child, 1972; Duncan, 1972; Hirsch, 1975). Second, research has been conducted relating aspects of the environment to specific structures, processes, and practices within the organization. For instance, the environment has been found to affect the adaptability, decentralization, innovativeness, internal complexity, differentiation, and communication patterns of organizations in predictable ways (cf., Lawrence and Lorsch, 1969; Aiken and Hage, 1968; and Galbraith, 1970). Finally, researchers have demonstrated that the organization not only reacts to its environment but may choose or change that environment to better meet its needs and goals (cf., Thompson, 1967; Child, 1972, pp. 13-16). All of the above represent examples of research relating concepts across categories of phenomena. Marketers have only recently begun to consider these determinants of marketing behavior.

The danger or dilemma in employing transpositional connectiveness lies in the possibility of spurious relationships and false inferences. The researcher must be careful to specify the linkage or mechanisms behind empirical associations of concepts from different levels of marketing phenomena. The cause-and-effect processes must be demonstrated since the correlation of systemic or environmental variables with, say, organization structural variables may be due to exogenous variables or unknown processes involving the modelled phenomena. The problem of spurious relationships is especially acute for the macromarketer because it is usually impossible, impractical, or unethical to experimentally manipulate variables to ascertain causality. Thus, the role of logic and theory in macro-marketing is paramount.[4]

THEORY BUILDING IN MACRO-MARKETING

In order that existing theory may be effectively criticized and tested and that comparisons may be made across theoretical proposals and time, it is necessary to scrutinize one's theories from the standards of the philosophy of science. Although numerous alternative metatheoretical structures exist, it is important that researchers select a formal structure for developing and testing their theories. Only then can knowledge in marketing grow systematically.

This section formally develops one metatheoretical structure for constructing theories in macro-marketing. It builds on Hempel's (1965) deductive-nomological (D-N) model, a largely positivistic approach. However, it strives to inject recent developments in the philosophy of science roughly categorized as realist in orientation (cf., Keat and Urry, 1975; Harre and Secord, 1972). It should be stressed that a number of perspectives exist in the philosophy of science, and esch represent a logical choice--though they all differ in fundamental ways. The liberal version of positivism was selected here because it represents one of the most debated, yet accepted, approaches of the day. Following the presentation of the approach, this section closes with an example drawn from the marketing literature that nicely illustrates the features of the model, given certain translations and elaborations. The example is that of Bucklin's (1970) three-level channel of distribution model.

A Metatheoretical Structure for Macro-marketing

Hempel (1965) suggests the following model as a schematic for scientific explanation.

Explanans	$L_1, L_2, \ldots, L_r$	Laws
	$C_1, C_2, \ldots, C_k$	Antecedent conditions
Explanandum	E	

In this model, the conclusion or phenomenon to be explained is known as the explanandum statement, E. The explanandum is explained through two premises (laws and antecedent conditions) and the relationship(s) of the premises to explanandum. The antecedent conditions, C_1, C_2, . . . C_k, entail statements as to particular facts, while L_1, L_2, . . ., L_r are general laws on which an explanation rests. As Hempel (1965, p. 337) notes, the model "answers the question '*why* did the explanandum-phenomenon occur?' by showing that the phenomenon resulted from certain particular circumstances, specified in C_1, C_2, . . ., C_k, in accordance with the laws L_1, L_2, . . ., L_r. By pointing this out, the argument shows that, given the particular circumstances and the laws in question, the occurrence of the phenomenon was to be expected; and it is in this sense that the explanation enables us to understand why the phenomenon occurred."

As a simple example, consider the explanandum statement, E, "The buying center agreed to purchase 3,000 pounds of wire." In order to explain this particular outcome, one might examine the decision processes occurring in the buying center during the time judgments and debate occurred.[5] Thus, it may have been the case that antecedent conditions such as the following transpired: (1) Power relationships in the buying center were such that the following relative patterns resulted: PE > M; M = A; PE < M + A (C_1), (2) the material manager and cost accountant formed a coalition (C_2), (3) with respect to the decision criteria, the members of the buying center differed in their evaluation of the relative importance of criteria and in their organizing principles used to integrate information (C_3), (4) the material manager and cost accountant were most alike in terms of antecedent condition C_3, while the production engineer used widely differing weighting and organization schemes (C_4), (5) the communication pattern between the buying center and middle management (who were the ultimate authority on such purchases) was such that the material manager functioned as a partially effective gate-keeper in terms of controlling information, (C_5), and so on.

The particular laws in this example might be of a psychological or social psychological nature such as the following: (1) Following the coalition theory of Caplow (1956, 1968), the initial conditions in C_1 and C_2 can be explained by the fact that (a) power differences in competitive triadic encounters motivate individuals to seek alliances in order to gain control over others or at least to prevent the latter from gaining control over them, and (b) weaker parties in such circumstances will normally be inclined to form coalitions against the stronger (L_1), (2) in accordance with social judgment theory (cf., Hammond, 1973; Brehmer, 1975), the greater the discrepancy among members of a group as to their weighting and organizing principles for integrating information and with respect to the processing functions relating criteria to judgments on a joint task, the more the cognitive conflicts among the group members (L_2), and so on. Notice that the final decision to purchase can be explained by the antecedent conditions and laws relating conditions to explanandum. Law L_1 in conjunction with

C_1 explains C_2. These relations are not sufficient to account for the purchase decision, however. In order for the coalition to be effective, three additional factors must be met. First, initial conditions of cognitive conflict (C_3) and the particular distribution of this conflict (C_4) with respect to the formation of the coalition had to be consistent with the outcome of the coalition. Second, the conditions of cognitive conflict had to be related (in a causal sense) to both the formation of the coalition and the final decision through social judgment theory (L_2). This provides a mechanism connecting the explanandum to particular facts in the situation. Finally, condition C_5 is suggested as a necessary contributing factor for this particular example.

The deductive-nomological model of Hempel (1965) provides a cogent structure in which to organize the particular independent and dependent variables in a theory along with an explicit specification of the mechanisms (e.g., social laws) connecting variables. However, the model obscures certain crucial problems in the theory construction process. These problems deal with the concepts in one's theory, the relationships among concepts, and certain testing requirements. For purposes of discussion, these are termed here semantic, syntatic, and empirical criteria, respectively.

Semantic Criteria

Semantic criteria specify the observational and theoretical meaning(s) of the explanans and explanandum in one's theory. These criteria are also known as concept validity in the literature (for a list of twelve variations in concept validity, see Zaltman, et al., 1973, p. 44).

The observational meaning of explanans and explanandum refers to the relationship between the theoretical concepts in one's theory and their corresponding empirical measures. These relationships are often appropriately termed correspondence rules. In general, there are three models that have been used in the scientific community to specify correspondence rules (cf., Keat and Urry, 1975). In the operational definition model, there is a one-to-one correspondence between theoretical concept and measurement operation. Thus, "X has the theoretical property Q if and only if, when X is subjected to test conditions C, it manifests the response R." Symbolically, $Qx \equiv (Cx \rightarrow Rx)$. A slightly different model, the partial interpretation scheme, gives a theoretical term its meaning through its manifestation in certain test situations. In particular, "in test condition C, X has the theoretical property Q if and only if it manifests the response R." Symbolically, $Cx \rightarrow (Qx \equiv Rx)$. The operational definition and partial interpretation models have been used most by the positivist school of thought. Although beyond the scope of this article, these models can be criticized for their overly restrictive reliance on a verificationist theory of meaning and an independent observation language, among other difficulties. A somewhat broader approach, termed the realist model, avoids some of these pitfalls by rejecting the strictly logical entailment implied in the above models in favor of a causal interpretation relating theoretical entities to observable phenomena. In particular, "if X is Q, then if test-conditions C are applied, result R will occur." Symbolically, $Qx \rightarrow (Cx \rightarrow Rx)$. This aspect of semantic criteria captures the construct validity of explanans and explanandum where construct validity refers to the degree of correspondence between concepts and measures (for an illustration of construct validity in consumer research, see Bagozzi, 1976c).

The theoretical meaning of explanans and explanandum refers to the nature and internal consistency of the language and terms used to represent these concepts. This semantic requirement largely refers to particular properties of object predicates such as their scope, range, intention, sense, and certain other logical characteristics. Lachenmeyer (1971, pp. 30-34) suggests four linguistic problems of theoretical language which may serve as formal guidelines for judging the theoretical meaning of explanan and explanandum terms.

> A term is said to be vague when the range of object predicates forming a term's referential meaning is greater than its denotative meaning.
>
> Any term is ambiguous when more than two but a finite number of object predicates have been specified as equiprobable members of the set comprising its referential meaning.
>
> Opacity refers to the failure of a term's reference function because there is no referent object of the sort represented by the term's object predicates.
>
> Contradiction is a special case of ambiguity that occurs when a term has two different, equiprobable predicates specified as its referential meaning and these object predicates are logically inconsistent.

Syntatic Criteria

Syntatic requirements refer to the link or connection between the phenomenon to be explained (the explanandum) and the antecedents and laws explaining this phenomenon. In general, two divergent schools of thought may be identified. For the positivist, the link is a determinative one in the form of a logical argument. In the D-N model, for example, the explanans imply the explanandum in a strict, deductive sense. Hempel (1965) also modifies the model to incorporate statistical explanation. Explanation in the D-N model is limited primarily to a set of statements as to antecedent-consequent relations and scientific laws where the latter are expressed as universal conditions, i.e., "for all X, if X has property P, then it has property Q," or symbolically, (x) (Px $\rightarrow$ Qx). For the realist, in contrast, the link between explanans and explanandum involves not only antecedent-consequent relations (e.g., Humean causality) but also a specification of the mechanism connecting the statements. Typically, the mechanism will entail some form of natural necessity. For example, Harre and Secord (1973, p. 18) propose the following model for explaining social behavior:

$$\text{If } C_1, C_2, C_3, \ldots, C_n, \text{ then B in virtue of N}$$

where C is an open disjunction of circumstances in the environment (e.g., events, acts, stimuli, norms), B is a set of focal behaviors (e.g., act-meanings, actions, thoughts, feelings), and N is an open conjunction of categorical assertions as to the particular nature of the actor (e.g., self-concepts, cognitive competencies, behavioral rules, expectancies, etc.). The syntatic requirements for the realist have the objective of answering how and why a phenomenon occurs. Generally, the positivist assumes a Humean view of causality, while the realist adopts a Kantian, manipulability, singularist, or modern necessity perspective (c.f., Beauchamp, 1974).

Empirical Criteria

The property of testability must be met. This property requires that some terms in one's propositions or theories be related to observable concepts through correspondence rules and that test implications of the following form be realizable: "If test conditions C are realized, then outcome E will occur" (Zaltman et al., 1973). Further, in order for a proposition or theory to qualify as having an objective and subjective reality and so become a part of a body of knowledge, it must be possible to replicate tests. This property is often referred to as intersubjective testability. Depending on one's particular school of thought in the philosophy of science, testability will entail either a "confirmationist" stance where empirical evidence provides relative, or varying degrees of support for the truth of one's propositions or theory or the "falsificationist" viewpoint where empirical evidence can only function to refute one's propositions or theories. The researcher maximizes his or her chance of satisfying empirical criteria by carefully defining and operationalizing constructs, avoiding tautologies, and pretesting concepts and measures whenever possible.

A Marketing Example

In order to illustrate some of the features of the metatheoretical structure, a model of the channel system developed by Bucklin (1970, 1971) will be illustrated. From a theory construction perspective, Bucklin's treatment represents one of the most thorough and informative analyses at the macro level found in the literature. In the author's words:

> "Our model of the distribution channel is based on a conception of the system as a set of interrelated decisions made by the various firms who hold title to goods during some portion of the flow of these goods from production to the final buyer. The actions taken by one member firm influence his sales volume and profits, both directly and indirectly, through their impact upon the profits and sales of other members of his system. By using mathematical functions to represent each of these direct and indirect influences, we can create a multiple-equation model of how the system reacts, as viewed from the perspective of some designated operator in the channel--either a producer, wholesaler, or retailer." (Bucklin, 1970, p. 586).

For the three-level channel model (producer, retailer, and ultimate consumer), Bucklin (1970, pp. 593-617) outlines the structural equation model classifying the equations into two types:

> "One type reflects the relationship between various determinants of demand and the operator's sales. In each model there would be only one of these equations. The second type, of which there is one or more for each system three in the case of the three-level channel system , describes both the indirect and direct effects of the operator's activities upon his determinants of demand." (p. 586.)

Using the terminology introduced earlier, one notes that there are four separate explanandums in the model: sales in dollars for the producer, S; retail promotional activity, D_1; retail price level, D_2; and number of retailers in the channel doing business with the producer, D_3. The explanandums constitute the dependent variables in the system (also known as endogeneous variables). The antecedent conditions, or independent variables, for each dependent variable consist of a subset of the remaining dependent variables and a set of exogenous variables. The exogenous variables are of two types:

> "The first consists of activities which the producer may directly control: his price, the money spent on advertising, the quality of his product and the image it projects, and the width of his product line. Manipulation of these variables will affect his sales volume, either directly or indirectly, through their effect upon one of the other endogenous variables in the system.
>
> The second type of variable includes all environmental factors over which the producer has no influence: the state of the economy, consumer incomes, family formations, household life cycles, prices of competing and complementary goods, and so on." (Bucklin, 1970, pp. 593-594.)

The four equations of the three-level channel model amy be written in abbreviated form as follows:[6]

(1) $$S = f_1(D_1, D_2, D_3, E_1, \ldots, E_m)$$

(2) $$D_1 = f_2(S, D_2, D_3, E_1, \ldots, E_m)$$

(3) $$D_2 = f_3(S, D_1, D_3, E_1, \ldots, E_m)$$

(4) $$D_3 = f_4(S, D_2, E_1, \ldots, E_m)$$

where the E_i are m exogenous variables. The laws of the D-N model are represented implicitly by the functional relationships. For example, for equation (1), Bucklin (1970) discusses the following mechanisms relating each antecedent condition (independent variable) to the explanandum (dependent variables, S).[7] First, the response of sales, S, to various forms of retail promotion, D_1 (e.g., advertising, display factors, personal selling) may be determined directly or estimated. For instance, the relationship between the proportion of shelf space devoted to one's brand and sales volume may be found empirically. Second, the relationship of price, D_2 (e.g., absolute and relative price levels; interactions of price with exogenous variables of the price of competing brands) to sales may also be determined empirically. Third, it is possible to model the impact of the number of retail stores, D_3, upon sales.[8] Finally, the exogenous variables may be related to sales using the methods discussed above. Bucklin (1970) discusses the foregoing relationships (and those for equations 2-4) in greater depth.

Specification of the functional form of equations 1-4 is not sufficient for theory construction purposes, however, even when based on empirical evidence. Rather, it is also necessary to examine the theoretical cause-and-effect processes behind these relationships. Bucklin (1970) provides a number of suggestions in this regard. Taking the response of producer sales to the number of retailers as an example (cf., Bucklin, 1970; pp. 588-593), one may identify at least four factors underlying the relationship: technology, market conditions, management performance, and channel conflict. Briefly, retail technology consists of such factors as the size of store, the sales per square foot of store selling space, the importance of the product line to the store, and the cross-promotional elasticities between the product and others carried in the store. Market conditions include, among others, the size, number, and power of competing operators, the commitments to other operators of complementary institutions of the channel, the degree of product differentiation for the operator's product or service, the location of the operator vis-a-vis potential customers, and time in the system. Management performance, in turn, encompasses such factors as the placing and timing of advertisements, training of the sales force, mailing of coupons, preparation of sales-force promotional materials (banners, displays, envelope stuffers), the determination of the proper size and location of inventories, training of dealers, incentive plans, and so on. Finally, channel conflict may occur in such forms as disputes over prices, differences of opinion as to optimal quantities for transfer, misunderstandings or personality and role conflict at the interface of the channel members, demands placed on channel members by forces outside the system, and so on. All of these factors may affect sales or the determinants of sales in the first equation. Parallel factors may be examined for the remaining equations (see Bucklin, 1970).

One of the values in delineating the system of relationships as Bucklin does lies in its use for refining concepts, suggesting improvements in operationalizing variables, and identifying weak spots or omissions in regard to cause-and-effect processes. For example, by using the number of retailers in the channel, D_3, as an endogenous snd exogenous variable one would probably expect to find that this introduces sources of error and imprecision into the model because the relationships between D_3 and the factors it represents (and those which determine it) are not one-to-one. That is, not only would one expect a certain degree of measurement error, but the nature of the relationships between factors such as retail technology and channel conflict on the one hand and sales volume on the other is not accurately represented through D_3. With respect to semantic criteria, it would probably be better to find more direct indicators of channel conflict, management performance, etc., and model these as determinants of sales volume. With respect to syntatic criteria, it may prove advantageous to explicitly model the cause-and-effect processes assumed when using variables such as price or number of retailers. Finally, in order to determine the degree of construct validity and measurement error in one's variables, it would be useful to use multiple operationalizations of constructs (cf., Bagozzi, 1976c). Thus, the use of a metatheoretical structure such as the D-N model can be used in a diagnostic sense as well as an efficient means for constructing and testing theory.

THREE FUNDAMENTAL PARADIGMS IN MACRO-MARKETING

One way of characterizing macro-marketing theories is through the paradigms reigning at any particular point in time. 'Paradigm' is used here in the following sense:

> "A paradigm is a fundamental image of the subject matter within a science. It serves to define what should be studied, what questions should be asked, how they should be asked, and what rules should be followed in interpreting the answers obtained. The paradigm is the broadest unit of consensus within a science and serves to differentiate one scientific community (or subcommunity) from another. It subsumes, defines, and interrelates the exemplars, theories, and methods and instruments that exist within it." (Ritzer, 1975, p. 7.)

Partly because of their content and partly because of tradition or administrative factors, theories tend to cluster in paradigms. Kuhn (1970) even builds his analysis of the evolution of scientific thought around the notion of paradigms and the interpersonal dynamics among members of the scientific community. For Kuhn, at any given point in time, a science is dominated by a specific paradigm, and knowledge accumulates and is evaluated in relation to it. The science of this period is aptly named normal science. Things do not progress smoothly for long, however, for anomalies arise for which normal science has no adequate explanations. As the anomalies mount and scientists become disenchanted with the state of affairs, a crisis stage may emerge and culminate in a "scientific" revolution. This will occur only if a new paradigm exists to take the place of the old. The new paradigm, then, enjoys a reign of its own, and the cycle is repeated. Schematically, the process may be represented as follows (cf., Ritzer, 1975):

PARADIGM I NORMAL SCIENCE ANOMALIES CRISIS REVOLUTION PARADIGM II

The marketing discipline is not dominated by any single paradigm but rather contains many competing paradigms in what perhaps may be termed a multiple paradigm science. At present, at least three distinct paradigms may be identified in macro-marketing: the social facts paradigm, the social definition paradigm, and--borrowing a term used by Etzioni (in Coleman, et al., 1970, p. 117)--the societal guidance paradigm.[9] Each of these is briefly discussed below.

Paradigms represent clusters of four characteristics. A paradigm is first characterized by a grouping of shared examples, a set of generally accepted classic and contemporary points of view with common elements. Kuhn (1970, pp. 174-175, 187-191) terms these examples "exemplars" or "exemplary past achievements." They represent the outcome of debate, consensus, give-and-take, and perhaps most importantly political maneuvering in what Kuhn terms the "irrational" side of science. A second criterion for identifying paradigms is the image of the subject matter of a science. The subject matter comprises the phenomena to be explained, the unique problems of a discipline, the dependent variables. The theories of a discipline represent the third aspect of a paradigm. Theories often evolve in groups or schools of thought. Finally, paradigms are distinguished, in a limited sense, by the methods brought to bear to explain the subject matter and test theory.

The Social Facts Paradigm

The social facts paradigm is perhaps the most widely employed perspective in contemporary macro-marketing theory and research. The subject matter of this perspective addresses processes, relationships, patterns of behavior, or structures among macro-marketing phenomena. The phenomena are of two kinds. The first consists of objects or material entities such as aggregates of sales, decisions, public policy and laws,[10] and physical things such as the size of stores, dispersion of customers or retail outlets, or the amount of inventory in a warehouse. The second kind of phenomena comprising the subject matter of the social facts paradigm are intersubjective phenomena--abstract entities such as the degree of centralization of authority in a channel of distribution, the nature of competition in an industry, the pattern of power and influence in a buying center, or the impact of technology on the development of marketing institutions in the third world. Abstract phenomena are usually inferred from observable behavior among marketing actors, the roles they perform, and the actions and events they influence or are influenced by. This is so since one can not observe the complexity of a marketing system or other pattern or structure directly but must rely instead on processes of abstraction and the like.

The exemplars of the social facts paradigm are numerous. The work of Bucklin in channels of distribution and marketing productivity, Bartels in comparative marketing systems, Stern in channel conflict and market structure, Grether in public policy, Fisk in social aspects of marketing, and Sturdivant in minority marketing, are but a sampling of some of the outstanding work in contemporary macro-marketing areas. Each of these scholars addresses processes, relationships, patterns of behavior, or structural aspects dealing with material entities, abstract entities, or both.

The theories brought to bear in the social facts paradigm all attempt to explain social facts with other social facts. This might entail relating certain functions or components of a structure to other functions or components of the structure as Bucklin (1970) does through structural equations. It might involve a conceptual analysis of aspects of consumption at the societal level as they are affected by public policy, environmental, or competitive factors. It might include empirical associations of aggregates such as found in advertising and demand models. Or it may focus on patterns of actions, decisions, or events as experienced by individuals such as family or buying center members. Typically, the phenomena that comprise social facts are modeled as external, facilitative, constraining or even coercive on individual consumers or marketers, and, in addition, social facts are felt to interact among themselves. An example of the former would be the "risky shift" phenomenon which finds that individuals take more risks in group situations than when isolated (cf., Cartwright, 1971), while an illustration of the latter would be Bucklin's three-level channel model where technology, market conditions, management performance, and channel conflict are suggested as determinants of sales.

The methodologies used in the social facts paradigm tend to be questionnaires or interviews and are usually employed in a survey sense. These procedures lend themselves to acquiring many individual and institutional facts necessary to obtain variability in constructs. Relationships among functions or structures are typically represented through regression, path analytic or causal models, or structural equations. Occasionally, case studies are conducted on small numbers of units and comparisons made in a more qualitative sense. Some macro-marketers have limited their inquiry to conceptual analyses of relationships at the macro-marketing level, relying on principles of logic, regularities observed in the research of others, analogues, and hypothetical comparisons. Overall, the theoretical and methodological tradition of the social facts paradigm in macro-marketing owes its impetus to the early work of Durkheim (1964) in sociology (cf., Ritzer, 1975, Chapter 2; Smelser, 1976, Chapters 3 and 4). Durkheim's influence may be traced through various sociologists working with economic and consumption problems, organization behavior researchers, and marketers such as Lou Stern.

The Social Definition Paradigm

The social facts paradigm closely parallels the natural science model of explanation in that variables are explicitly constructed from facts in the world (e.g., events, aspects of institutions, aggregates of behaviors, etc.) and these, in turn, are interrelated through social laws frequently based on extensive observation of regularities in patterns of behavior at the social level. As noted earlier, care must be taken when employing such an approach since it is often difficult to discover social laws and the theoretical mechanism relating one social fact to another. Moreover, the social fact paradigm is especially vulnerable to charges of reification since it usually does not address the act-meanings of social agents in a marketing system. Nevertheless, it has achieved a considerable amount of success in marketing in recent years.

The social definition paradigm, in contrast, explicitly addresses the meaning of actions for the parties engaged in a social relationship. In particular, as first proposed by Weber (1964), the social definition perspective strives for an "interpretive understanding of social action in order to arrive at a causal explanation of its cause and effects." Social action then constitutes the principle subject matter for this paradigm.

> "In 'action' is included all human behavior when and in so far as the acting individual attaches a subjective meaning to it. Action in this sense may be either overt or purely inward or subjective; it may consist of positive intervention in a situation, or of deliberately refraining from such intervention or passively acquiescing in the situation. Action is social in so far as, by virtue of the subjective meaning attached to it by the acting individual (or individuals), it takes account of the behavior of others and is thereby oriented in its course" (Weber, 1964, p. 88).

At the macro-marketing level, social action finds expression as cognitive and symbolic processing of information by groups; shared collective experiences such as the "Protestant ethic," the norm of reciprocity, or panic buying; emergent phenomena such as consumer movements; large scale processes such as consumer socialization; long run phenomena such as the evolution of marketing institutions or other historical processes; and social interaction among buyers and sellers conducted from a symbolic interactionist, phenomenological, ethnomethodological, or cultural orientation. Significantly each of these lines of inquiry explicitly incorporates the individual actor's subjective interpretation of actions, symbols, and events in its theories.

Although the range of phenomena covered by the social definition paradigm is quite broad, few marketers have utilized the approach, and as a result, it is difficult to identify exemplars. The work of Levy (forthcoming) in social class and the cultural aspects of marketing represents one line of inquiry as does, to a limited extent, research by Davis into the dynamics of family decision making. In general, however, it has been nonmarketers who have used the social definition paradigm most to explain macro-marketing phenomena. For instance, Blumer (1969) analyzes fashion from the perspective of a symbolic interactionist, Firth (1973) studies giving and getting including that between merchant and customer as a process of meaning transfers among people in a social setting, and Le Masters (1975) examines behavior in a tavern through the shared experiences of its patrons. These scholars, however, are respectively a sociologist, an anthropologist, and a social worker.

A number of theories have been used to account for macro-marketing phenomena from the perspective of the social definition paradigm. Typically, these have been borrowed from the qualitative approaches found in anthropology and sociology. They include, among others, action theory, enthnomethodology, symbolic interactionism, and various phenomenological frameworks. All of these theories model some aspect of the individual actor's meanings and interpretive understanding of situations in which they find themselves. Although situational or learned constraints may be modelled also, the focus is on the dynamic, creative interaction of people with their environment. The methodologies employed are typically participant observation, depth interviewing, case work, content analysis, documental examination, and so on (cf., Bogdan and Taylor, 1975).

The Societal Guidance Paradigm

The social facts and social definition paradigms have quite divergent outlooks. The former views human behavior in a largely passive sense in that aspects of marketing structures and the larger social system are modelled as constraining and coercive on the individual. It does not explicitly model the creative, expressive, voluntaristic, or purposeful side of man. The social definition paradigm, on the other hand, analyzes what the social facts paradigm neglects. Specifically, it examines the constructive, goal-directed, decision making, and interactive facet of behavior. Usually, however, the social definition paradigm fails to explicitly model the reactive, responsive dimensions of behavior. Human behavior is, of course, at times purposeful and reactive. The behavioral sciences do not presently have theories which adequately integrate these important sides of social life.

Partly in answer to the divergence of the two paradigms, some scholars have suggested a synthesis. Etzioni (in Coleman, et al., 1970) proposes a "social guidance" paradigm which not only strives to combine aspects of the social facts and social definition paradigms but also has a normative orientation.[11] Etzioni sees societies as falling under one of four categories depending on where they are classified as to the two dimensions of control and consensus (see Table 2). By control, Etzioni means roughly (a) the power of society (in terms of assets, the ability to effect programs, etc.) and (b) the capacity of society to collect, process, and use knowledge. By consensus the author means largely the degree to which the goals of society and the means chosen to pursue those goals are compatible with social units in that society. Societies low in both control and consensus are labelled "passive" and include most primitive societies. Those high in control and low in consensus are termed "overmanaged" and find expression largely as totalitarian societies. Those low in control and high in consensus are classified as "drifting" and encompass most "capitalist democracies" such as the United States. Finally, societies high in both control and consensus are defined as "active." Presumably Israel and Sweden approach this "ideal" type. Etzioni's goal is to derive a theory of society which is both explanatory and action oriented. The aim is to "not only understand society but also to change it."

Viewing marketing in a macro sense as a social system, Arndt (1976) and Fisk (1974b) propose a somewhat similar model for marketing. Their model views marketing as a "provisional mechanism, the social instrument through which members of society receive their standard of living. More specifically, the role of marketing in society is to match supply and demand, and to provide an informational basis for responsible decisions by marketers, consumers, and government" (Arndt, 1976).

Whether the provisional mechanism model will prove acceptable to marketers in a scientific as well as engineering and normative sense remains to be seen. In order to succeed, the approach will have to come to grips with a number of conceptual problems. To qualify as a theoretical, scientific framework, the provisional mechanism model must in some way explain the quite pervasive occurrence of conflict in society, particularly that among marketing systems and actors as well as between marketer and nonmarketer. The fact that marketing conflict in the form of boycotts, unsafe products, false or misleading advertising, black market activities, shoplifting, resource depletion, pollution, and so on occurs in the planned as well as unplanned economies (and has done so since at least the times of the ancient Egyptians) indicates that marketing behavior is more than the artificial and overly simplified prescriptions for matching supply and demand. The fact that one may come to think of supply equaling demand in an abstract sense is often vacuous and uninformative when one recognizes the circularity in reasoning underlying the metaphor. To be sure, society is infused with consensus, planning, and harmony, but to ignore the role of conflict--from the intrapersonal to the systemic--is to define away an important force in social and marketing life. What is needed is a definition and theory of marketing that explains both the reality of conflict and consensus.

The provisional mechanism model is also hampered by its implicit use of value laden terms. Consider the following elaboration:

> "Marketing is (1) the societal process consisting of (2) the conception, planning, and implementation of (3) the total set of mental and physical activities undertaken by (4) individuals or organized groups of individuals being actors in the system (5) in order to bring about the satisfaction of consumer needs for goods and services, and (6) the social and environmental effects of these activities" (Arndt, 1976).

At first glance, this definition has considerable appeal. On the positive side, it emphasizes the societal nature of marketing, the processes that go on, and the role of economic and other social forces, though it does not expand on these points or provide insights for interrelating them in a cohesive theory. The referents of "societal process," "the total set of mental and physical activities," and "social and environmental effects" are not specified nor are suggestions made for mechanisms, cause-and-effect forces, etc., underlying these processes, activities, and effects. Nevertheless, the definition can be regarded as a possible, if sketchy, starting point for theory building, assuming further development is made in concept formation and hypothesis construction.

On the negative side, the definition imbues a number of value premises in its structure. For example, limiting marketing to the process of bringing about the "satisfaction of consumer needs," by definition, eliminates the very real processes and outcomes of dissatisfaction found in the market place. Marketing should not be limited solely to understanding and managing "goods" but should strive to account for so-called negative or objectionable (for some) practices. Although some might label bribery, prostitution, pornography, and other very real marketing activities "bad" marketing, they are instances of marketing and deserve treatment in a general theory of the discipline. To limit inquiry to how marketing "should" function neglects the fact that many of the above marketing activities and conflicts are legal--and indeed eagerly engaged in--in many cultures. Perhaps it would be appropriate to reaffirm the separation of value from fact as forcefully put in the dictum of Weber. As Smelser (1976) notes,

> "Throughout his methodological writings Weber insisted on the strict separation of statements with empirical (scientific) validity and statements with normative (right and wrong) validity. In particular, he held that the latter cannot be derived from the former; consequently he was opposed to any effort to generate an empirically-based 'science of ethics.' Scientific investigators can make statements regarding the relative effectiveness and cost of alternative means to given ends; they can also often identify and make explicit goals or values which may not be acknowledged by the actors being studied. But they cannot go further: 'empirical science cannot tell anyone what he should do'" (pp. 43-44).

Perhaps even more challenging to the provisional mechanism model are the occurrence of competing interests in society, the reality of tradeoffs and scarcity, and the seemingly omnipresent discrepancies in status, power, and resources by various segments of society. Power and political maneuvering within and between marketing systems and other social systems are pervasive, too, and deserve mention, whether one desires to study these processes, eliminate them, or perhaps augment them for one reason or another.

Phenomena of social change are not easily accounted for in the provisional mechanism model. Marketing involves more than the technological problems[12] of discovering needs and storing and transporting goods and services. Significantly, marketing is both a cause and consequence of social change, functioning actively as a determinant and target of forces in the larger social system (cf. Levy and Zaltman, 1975). How one marketer, group, or authoritative body thinks marketing should be conducted may have little to do with how marketing is performed. Marketers need an explanatory theory of the discipline's subject matter that informs the normative questions raised by its practice. Furthermore, consumers do not merely "receive their standard of living" but rather actively construct their life styles. They do this implicitly in their daily interpretation of self-images, in their interactions over consumption decisions with family members and salespeople, and in their actual choices, letters of complaint, responses to surveys, and so on. In a more organized sense, consumers explicitly construct their standard of living through their votes on economic legislation, their pressure on legislators, consumer movements, and various protest activities. Consumers are far from the passive actors assumed in many theories.

In summary, what is needed in the discipline is a theory (or theories) which achieves philosophy of science goals for explanation, prediction, and control while representing marketing behavior as it actually occurs in society. This requires that marketing man be represented in his or her true complexity, functioning actively as a person with intentions, purposes, motives, and goals, as a decision-maker subject to intrapersonal and interpersonal conflicts and processes, and as a vulnerable agent exposed to the pressures of powerful others, the influence and constraints of marketing institutions, and imbalances in information, income, and other resources.

Although marketers may be "buried in the morass of canonical roots and conjoint measures" as one author recently felt (Arndt, 1976), the discipline need not wait for a general theory of marketing to be unearthed like a new atomic element. Rather, marketers have the tradition of scholarship and research with which to construct their own subject matter and theories. Significantly, macro-marketing has been at the forefront of marketing thought and should serve as a stimulus for continued growth in the discipline's conceptual base.

Table 2

ETZIONI'S SOCIETAL GUIDANCE PARADIGM

		Consensus	
Control	High	Active	Overmanaged
	Low	Drifting	Passive

After Wolf (1970, page XVII)

FOOTNOTES

[1]As an aside, it has been suggested that the fundamental unit of analysis in marketing is the dyadic exchange (cf., Bagozzi, 1975; Bagozzi, et al., 1976), and others have shown that such exchanges can form the basis for theory at the institutional and other macro levels (cf., Blau, 1964; Levi-Straus, 1969).

[2]One could posit that the psychology of marketing can be reduced to physiology, then biology, then chemistry, and finally physics, but no one to the author's knowledge has suggested such. Considerable thought and research will be required in the years ahead to determine if such a development is possible and valid.

[3]This term was coined especially for this article. To the author's knowledge, the concept has not been addressed in marketing. The need for the concept was suggested to the author while reading an early paper by Talcott Parsons (1960) who stressed the importance of examining the contribution of organizations to the total system (and vice versa). Hence, by extension, one can posit that all levels of marketing are affected by and have implications for each other in a total systems perspective. The study of such interactions remains an untapped area for inquiry in the discipline.

[4]This is not meant to gloss over problems in methodology, however. Although beyond the scope of this article, many methodological issues deserve mention (cf., Smelser, 1976; Vallier, 1971; Coleman et al., 1970).

[5]For expository purposes, it is assumed that the buying center in question consists of three actors: a materials manager, a production engineer, and a cost accountant, labelled respectively, persons M, PE, and A.

[6]For an example of a system of empirically determined equations, see Bucklin (1971), especially pages 56-60.

[7]The explicit forms of these relationships would have to be determined by longitudinal studies (e.g., forecasting), simulation, cross sectional studies (i.e., looking across similar channel systems), or combinations of these approaches.

[8]Again, by the methoda outlined in footnote 7 (see Bucklin, 1970).

[9]The terms social facts and social definition are from Ritzer (1975) who presents an analysis of paradigms in sociology.

[10]Decisions and public policy and laws constitute social facts in that they are objectified and come to have an external existence apart from their creators, and perhaps most importantly, they have implications for the actions of others serving as constraints, guidelines, rules and procedures, and so on.

[11]For some critical comments of Etzioni's proposal, see Wolf (1970, page XVII).

[12]For a discussion of social marketing from the exchange perspective, going beyond technological concerns, see Bagozzi (1975, pages 37-39).

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THE THREE DICHOTOMIES MODEL OF MARKETING: AN ELABORATION OF ISSUES

by

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Editor's Note: Dr. Hunt's very germaine article in the Journal of Marketing, July 1976, was an important point of discussion for the Seminar. His comments here are an elaboration of these discussions. Readers are urged to see his article, as it was useful to the progress of the Seminar.

Many constructive comments and observations have been offered by participants of the Macro-Marketing Conference concerning my paper, "The Nature and Scope of Marketing." Most of the discussion focused on the "three dichotomies" model of the scope of marketing: micro/macro, positive/normative, and profit sector/nonprofit sector. The purpose of this elaboration is to summarize some of these comments and then attempt to resolve some of the controversies.

1. "There is no difference between marketing in the profit sector and in the nonprofit sector. Therefore, the profit sector/nonprofit sector dichotomy is simply excess baggage." I am sorely tempted to simply agree with this comment and simply move on. My own belief is that the similarities between marketing in the profit sector versus the nonprofit sector greatly outweigh the differences. Or, stated another way, "good marketing is good marketing." On the other hand, prior to the last few years no one could deny that marketing academia paid little attention to the marketing problems of nonprofit organizations. Similarly, most nonprofit organizations did not perceive marketing or marketing people to be relevant to any of their problems.

Only in recent years have many nonprofit organizations been hiring marketing graduates and setting up marketing departments.

I agree that there should be no fundamental difference between marketing in the two sectors. Nevertheless, the "three dichotomies model" is primarily a positive model, not a normative one. Its purpose is to provide a useful taxonomical perspective on marketing as it is not on as it ought to be. I suggest that the profit sector/nonprofit sector dichotomy will be useful until such time as 1) "broadening the concept of marketing" ceases to be controversial, 2) nonprofit sector marketing is completely integrated into all marketing courses (and not treated as a separate subject with separate courses), 3) administrators of nonprofit organizations generally perceive their organizations as having marketing problems, and 4) these administrators hire marketing people and, where appropriate, set up marketing departments. At such a time the dichotomy will truly be excess baggage and of interest primarily to marketing historians. Nothing could please me more than to have this dichotomy warrant only a passing footnote in the third edition of Bartels' History of Marketing Thought.

2. "The positive/normative dichotomy is a false dichotomy because we cannot escape from our own value systems." The premise is true: we probably cannot escape from our value systems. Nevertheless, this premise does not imply that the positive/normative dichotomy is false. To accede to this conclusion would be to capitulate to despair.

There is an analogous problem in the discipline of journalism. Journalism stresses objectivity in reporting: journalists attempt to keep their personal value systems out of their "news" writing. All knowledgeable people recognize the impossibility of completely keeping editorializing out of the "news" columns. Nevertheless, the goal of separating news from opinion remains one of the ethical pillars of journalism. It does so because the credibility of journalists would be irreparably damaged if the goal of objectivity were abandoned simply because the complete achievement of that goal was found to be unattainable.

So it is in marketing. Granted, marketing research cannot be value-free. But that does not imply that we should not attempt to separate the issue of whether marketers perceive themselves of having "social responsibilities" from whether marketers <u>should</u> have social responsibilities. Or, that we should not attempt to clearly separate the issue of whether the poor do in fact "pay more" from whether it is <u>wrong</u> that they pay more. Or, finally, that we should not attempt to separate how managers do in fact make marketing decisions from how they <u>should</u> make those decisions. The importance of the positive/normative dichotomy as a goal for clear thinking and analysis is in no way impaired because the goal is, in principle, not completely attainable.

3. "<u>The positive/normative dichotomy is dangerous because it may lead people to downgrade the importance of micro/normative marketing.</u>" I certainly never intended to imply that micro/normative marketing was/is unimportant or not worthy of attention. On the contrary, the study of how marketing decisions <u>should</u> be made is extremely important. To state otherwise is to grossly misinterpret my position. I concur that some people, now that they have a taxonomical schema showing the various dimensions of marketing, may choose to de-emphasize micro/normative marketing. Further, this de-emphasis may have some unfortunate consequences. Nevertheless, many marketers today <u>still</u> consider the entire scope of marketing to be its micro/normative dimension, and this has unquestionably had extremely unfortunate consequences.

The positive/normative dichotomy puts micro/normative marketing "in its place." It does not imply that that "place" is unimportant. The potential advantages of awakening people that there are dimensions to marketing <u>beyond</u> the micro/normative one greatly outweigh any possible dangers of downgrading the importance of micro/normative marketing.

4. <u>The micro/macro dichotomy is ambiguous. There appears to be no clear criterion for separating "micro" from "macro."</u>

I agree that of the three dichotomies proposed to organize the total scope of marketing, the micro/macro one is probably the most ambiguous. Drawing upon the distinction between microeconomics and macroeconomics, the original paper distinguished between micro-marketing and macro-marketing on the basis of aggregation: <u>micro</u> referred to the marketing activities of individual units (firms and consumers or households), while <u>macro</u> referred to a higher level of aggregation, either marketing systems or groups of consumers. However, as has been pointed out, topics like "does marketing have special social responsibilities?" would not fit the macro label on the basis of a level of aggregation criterion. Given that most marketers desire to classify topics similar to the "social responsibilities" issue as <u>macro</u>, how should the specification of <u>macro</u> be modified?

The conclusion of the conference seemed to focus on an "internalities vs. externalities" classification. That is, micro-marketing focuses on the internal marketing interests of firms, whereas macro-marketing focuses on the interests of society concerning marketing activities. Such a specification would then include topics like "social responsibilities," efficiency, productivity, and whether "the poor pay more." And this is all to the good. However, such a specification by itself would not encompass items like the legal aspects of marketing, comparative marketing, or power relationships in channels of distribution. None of these topics necessarily focuses on the "interests of society;" yet many marketers would like to include them under the rubric of <u>macro</u> because the topics are very different from <u>micro</u> issues like how do (or should) firms determine their advertising budgets. Therefore an "interests of society" criterion is not sufficient.

I conclude and propose that macro-marketing is a multi-dimensional construct and that a complete specification would (should) include the following:

> Macro-marketing refers to the study of (1) marketing systems, (2) the impact and consequence of marketing systems on society and (3) the impact and consequence of society on marketing systems.

Criterion (1) is a level of aggregation criterion which allows the inclusion of topics like comparative marketing, the institutional structure of marketing and power relationships in channels of distribution. Criterion (2) is a generalized "interests of society" criterion which brings in items like "social responsibilities" and the role of marketing in economic development. Criterion (3) recognizes that society impacts on marketing and would include topics like the legal aspects of marketing and the consequences on marketing of different political and social value systems.

THEORY: THE BASIC ESSENTIAL TO A MATURING DISCIPLINE

by

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Marketers have frequently exhibited extremist positions in their efforts to implement the changing marketing concept. A brief historical review recalls the pendulum swings.

The decade of the 1950s sired the emphasis on motivation research with its psychological and indepth projective techniques. Its thesis stated that buyers were motivated by symbolic as well as economic-functional product concensus. Its proponents heralded its application as almost a panacea to explain buyer behavior.

In the sixties the pendulum received another hard "push." The emphasis now was on the combined quantitative-computer application, and consumer behavior came into its own. Again the flourish of the trumpeter was heard to proclaim the new panacea. Now in the seventies the marketing concept has been "broadened" to meet the exigencies of the times. Marketers are prepared "to reinvent the wheel"--ecological and societal applications have been discovered. The sound of the trumpeter's horn is heard again.

For Whom the Bell Tolls

Retrospect indicates some interesting things have occurred. The controversial motivation research has had its merits and limitations discussed and debated. Does the prune, as Dichter's research indicated, arouse feelings of old age and insecurity or is James Vicary's research correct--

people have an emotional block about prune's laxative qualities.[1] For most, motivation research is now recognized for what it is: one of the many tools in the kit bag of the researcher.

In the last several years the quantitative approach and the computer have faced their proper turn for discussion and assessment. The succinct observations that follow emphasize the point:

> "...There are many cases where no need may ever arise to use mathematics or computers. For the essence of the...approach is not its techniques, but the enumeration of options and their implications. A simple checklist may be the only tool used. I would even argue that some hard thinking in a quiet room may be enough...."[2]

or this

> "Despite all the efforts at quantification, systems analysis is still largely an art. It relies frequently on inputs based on human judgment; even when the inputs are numerical, they are determined, at least in part, by judgment. Similarly, the outputs must pass through the sieve of human interpretation."[3]

Marketers simply cannot expect that the masses will behave in the future as they have in the past. It is folly to think that in the future we can predict mass behavior changes without understanding what underlies these changes. The emphasis must be on the disaggregate rather than the aggregate.

Regression analysis with its emphasis on mass data describing the mass fails to look beneath into the human elements that make up the aggregate result. The reliance on mass and frequently past data is dangerous considering the accelerated changes already in progress in value systems throughout not only the United States but various other countries of the world. Quantitative analysis, if it is to have any relevance for marketing in the future, must assume that the consumer's value system is not a carry-over of the value system of the past. Marketing, as a profession, will find it dangerous not to look underneath to know much more about the human element.

Comment is perhaps appropriate too about the behavior of marketers--particularly those in academia. The broad pendulum movements just described are further complicated by another activity. Academicians have exhibited a marked propensity for jargon. Uncommon and unfamiliar words, vague in meaning, are offered as substitutes for that which is genuine and creative "innovation." To illustrate, over 60 definitions of the term innovation can be found in the literature.

The Requisites for Balance

The writer suggests that the imperative should be as follows: to move that pendulum to reflect a constructive balance between the behavioral and social science contributions and those of the quantitative and computer applications. Reason would dictate that only when this has been accomplished can decision makers arrive at decisions in a reasonable manner.

William Lazer indicates the need for careful reflection:

> "Companies are better off to move up on the problem of introducing quantitative approaches (excluding those well grounded in mathematics and statistics) to solving marketing problems at a moderate pace rather than to take a crash approach. Executives must be retrieved and re-conditioned. Environments must be changed. Companies should not attempt to modernize all at once and move forward rapidly into the quantitative age within six months or a year. For example, it is often better to up-date and build on the available marketing information system than it is to throw out the old system and revamp it immediately. In introducing quantitative approaches, it is not a matter of a temporary crash program or push by doubling or tripling resources, as might be the case

> in building a new plant. Developing effective quantitative models to deal with realistic marketing situations is a time-consuming, expensive, demanding process. Progress is measured in partial rather than complete success. Practical approaches and solutions rather than optimal solutions should be the goal."[4]

The hope is that the admonition, often delayed, will be heeded. An observation that follows fortifies the point:

> "The socio-economic priorities in our society are shifting from an emphasis on magnitude or gross national products and the volume of output to an emphasis on the quality of life, the quality of outputs, and the quality of our environment."[5]

Emphasis, it must be obvious, requires a shift to the characteristics of individuals, their value system concepts, and their individual relationships to the world and the society in which they live. It is appropriate, therefore, to also add that despite past comments, the interdisciplinary approach may be faulted on details and assumptions, internal controversies between the disciplines, an over-exaggeration of contributions from the behavioral and social sciences, and even accusations that these impede marketing developments. There is no more reason that these should result in the misguided direction of research and problem solving activities in marketing than that mathematics and statistics should do this. <u>Both would if used improperly</u>.

<u>What is the Marketing Problem</u>

Albert Einstein provides insight into what may be wrong with marketing. He states, "To the extent that (he) was a good mechanic he was a deplorable philosopher."[6] Or this by the same man: "Every theory is killed sooner or later in that way (by a fact). But if the theory has good in it, that good is embodied and continued in the next theory."[7]

How can we make further progress in marketing inspired by the words of that great thinker? The answer lies in the development of theory. What is needed is a true resurrection of the thought approach that characterized the Marketing Theory Seminars led by the great Wroe Alderson. What is required is a rededication to developing a coherent group of general propositions that may be used as principles of explanation for classes of marketing phenomena. Then and only then can come the appropriate practices to meet the needs of the future. Haste in the effort is essential for the speed of events is at an exponential rate. Our challenge in marketing--as in all other areas of life--is to meet what Alvin Toffler has described: "Future shock is the dizzying disorientation brought on by the premature arrival of the future. It may well be the most important disease of tomorrow."[8]

In the Marketing Theory Seminars effort, the suggestions that follow may, fundamental as they are, provide some meaning. Can it be that in our theory development a return to some of the basics is what is needed?

First, psychology. The question is well asked--How can one discuss buyer wants--whether oriented to the consumer or industrial buyer--without a consideration of psychological considerations? Motivation, learning, symbolism and perception are certainly basic both to buyer and seller. "Each person (buyer) must adapt to his unique psychological field, and to him, this field is reality. He will establish patterns of behavior which permit a workable and meaningful pattern of adaptation."[9] Such knowledge and understanding of the buyer by the seller are needed in the buying and selling environment. Successful appeals to ultimate and industrial consumers demand no less than an adequate knowledge of their psychological composition.

Certainly too no one would dispute sociology's relationship to marketing. It has contributed to problem solution in marketing and demonstrated the need for information and examples of group action and dynamics, social class, life cycle status, and social values.

Most germane to marketing of the many branches of anthropology is cultural anthropology. While so much of marketing practice has used cultural anthropological findings for applications to international marketing, the question is why more emphasis is not focused on use of such findings in studying the changes where demographic information no longer tells the real story of the environment that marketing must operate in. Anthropological investigations certainly study assimulation and innovation. Why can't we learn to better assess the changes that we are witness to?

Much more could also be learned from political science. Marketers and marketing must recognize that their contributions can far exceed what our primary interests in it have been to date--principally, the regulatory activities that attend it. It could be foundation for synthesizing in part the behavioral sciences, the individual life cycle of individual and firm, and the integrating of mathematical applications and the computer.

The quantitative approach together with computer application may play a pivotal role in our return to the basics. While we can seriously question the present state of the art in theory development, significant advances have been made in the application of quantitative techniques to marketing problems. At present, our advances in methodological development are running ahead of our advances in theory development. Increasingly, sophisticated methodological techniques (e.g., canonical analysis, multi-dimensional scaling, and multi-variate analysis) may be useful in bridging some of the conceptual gaps of the past and in focusing on the basics. In so doing, we should be preoccupied not with our glittering bag of tools but with the development of basic marketing theory. Thus, as Enis suggests, the concept of marketing should be "deepened" as well as "broadened."[10]

Conclusion

While often repeated and somewhat idealistic, it may be useful to highlight some of the areas that can enhance the development of theory.[11] First, standard definitions of terms and concepts are needed. For example, some of the inconsistencies that have emerged in new product research can be explained by the myriad of definitions of "new product" that have been employed. Second, a stronger replication tradition is needed in marketing research. Many propositions and research findings that appear in contemporary marketing textbooks are based on a single study. Third, as always, the time is ripe for the use of longitudinal research designs. A snapshot does not capture the dynamic nature of buyer behavior. Fourth, the managerial implications of research findings should not be left entirely to the reader's imagination, but should be clearly delineated wherever possible.

The future is now. Even earth evidences that it is no longer a closed system. Marketing theory suited to the future is an imperative. Only then can the appropriate practices essential to business executives in the decision making role be available. Wroe Alderson, the guiding genius of the Marketing Theory Seminars, said, "The chief function of theory is to serve as a perspective for practice."[12] What he said over two decades ago is even more the needed guide for tomorrow: "It is an ironic paradox that the ever-increasing demands from business executives have forced marketing men to become more theoretical. The kinds of questions executives are asking call for rigorous techniques, in problem solving, which in turn need to be rationalized in terms of some general theoretical perspective."[13] Our efforts should be dedicated to higher-range theories that can be verified. The aspiration levels of theory builders must lead to a casting off of what have been called the constraints of marketing. Only then can a higher level of theory be realized.

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WROE ALDERSON AND MODERN MARKETING THEORY

by

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Introduction

Marketing theorists of the 1950s and 1960s hailed Wroe Alderson as a leader in their field. Time has substantiated their judgment: Alderson's works are among the few writings of their period accorded anything more than historical esteem. However, marketing thought has been subject to enormous methodological improvement and to infusions of behavioral science theory since Alderson's death.

This paper will suggest that Wroe Alderson's writings no longer represent modern marketing theory. Alderson was the most powerful author immediately preceding what Kotler (1) has called marketing's shift from applied economics to applied behavioral science. Writers prior to this shift attempted comprehensive theories of marketing, while writers since have presented more specific theories. As a result, Alderson's writings offer perhaps the most recent general theory of marketing. Also, Alderson was an author of great insight. These facts contribute to Alderson's continued major significance in modern marketing thought. However, Alderson's theory was an applied economic theory with unreconciled behavioral elements. While Alderson's functionalism may prove useful for practical market analysis, his theory is not adequate for modern marketing.

Marketing as Applied Economics

Early marketing theory branched from economic theory. Economic theory of the time assumed that humans behave in a rational effort to maximize economic utility. Behaviors which failed to maximize utility were treated as errors of some sort; either the result of inadequate information, the result of temporally volatile utilities, signs of an incompletely specified model, or irrational behavior.

Given the typical variation among humans in possession of utility objects, maximization of utility involves an exchange of utility objects (an economic transaction) for the mutual benefit of all participants. Variation in ability to produce economic goods, called relative advantage, leads to sustained variation in possessions and thus to specialized producer roles and long-lasting relationships.

The existence of exchange relationships is crucial, because economic thought did not investigate the process of assigning utilities to objects. Utility assignment was taken as pre-existent. Without knowledge of the process of utility assignment, attention centered on the transaction: since behavior was mechanically directed toward optimal utility, examination of transactions would reveal the pre-existent, but unknown utilities of trading partners.

Marketing pioneers such as Arch W. Shaw (2) and Ralph Starr Butler (3) accepted the economic model, but noted that early 20th century producers and consumers usually were not directly linked in the commercial environment which had evolved through the Commercial and Industrial Revolutions. Goods were exchanged only after a typically long route from the point of production, and often after several intermediate transactions. The distribution channel drew marketers' attention as an economic phenomenon needing analysis. "Marketing is motion," declared Shaw, and marketing was introduced as a study of the process by which goods reached their final consumer.

These early authors believed that channels of distribution were organized through economic optimization. The distribution channel was an elongation of the transaction, and the activities involved in distribution were mechanically determined. However, the complexity of distribution channels inspired differing opinions about what aspect of the distribution process provided the economic basis for organizing the channel. Theories of marketing were developed around most of the who, what, where, when, why and how of distribution.

The institutional approach focused on who transacted, claiming that the marketing process was organized by the institutions participating in it. The peculiar structure and abilities of the group of institutions acting in a market would determine the economic advantages governing the market. Breyer (4) provides a brief example of this approach. Cox (5), Aspinwall (6) and others focused on what was transacted: this commodity approach held that attributes of the product being transacted would determine economies of transportation, storage, etc., and thus would organize the market. Grether (7) and Clewett (8) offered some argument for organizing the market through the where of transaction: the regional, or location approach considered markets as determined by the distances between materials, labor, consumption, etc. The when of transaction received little attention, and the why of transaction was not at issue (the economic model defined why transaction occurred). McGarry (9), Alderson (10) and other authors studied how transaction occurred: their functionalist approach claimed that certain functions had to be performed in any marketing process, and that the application of these functions to any specific market would define the economies which organized the market.

Marketing theorists argued over these approaches through the 1950s. The three most populat approaches, commodity, institutional and functional, all seemed reasonable given an assumption of mechanistic behavior by producers, distributors and consumers, but none individually provided an adequate explanation for the structure and operation of real markets. Alderson's writings on functionalism seemed to make this approach dominant by the early 1960s, possibly because of the greater dynamism of functionalism in explaining market changes, but more probably because of Alderson's personal power as a thinker and writer. Alderson's adoption of a systems approach, which recognized the interrelated nature of all marketing functions and of the marketing participants, spurred acceptance of his ideas. The systems approach forced consideration of the environment of marketing through its focus upon input-output relations of the marketing system, and thus sharpened marketers' awareness of problems in defining an industry, defining and measuring effective competition, and measuring market efficiency. However, despite Lewis and Erickson's imputation of great significance to the systems approach (11), marketing theorists did not make significant applications of systems theory at this time.

Marketing as Applied Behavioral Science

All three process approaches lost favor in the 1960s. Advocates of these approaches implicitly accepted the economic model, but invariably buried some passage in their works acknowledging that model's shortcomings in explaining market behavior. Authors of the 1960s raised this acknowledgement to a central focus, and began to use alternatives to the economic model. These alternatives could assume that humans do not necessarily act to maximize output (the position of satisfying models). They could expand the set of motivating objects to include previously non-economic objects, as in examining the social aspects of economic relationships. They could treat behavior as willed, rather than as determined, and thus open the issue of how utilities are assigned. Finally, alternative models could make more than one of these changes.

Desertion of the economic model changed the direction of marketing thought. Economic motivation alone was no longer thought to organize markets. This realization de-emphasized the marketing process, and focused interest upon the now non-prescribed behavior of market participants. Kotler (12) refers to this shift as marketing changing from applied economics to applied behavioral science. The transfer of focus introduced three new potential bases for market organization: behavior of suppliers (producers and distributors), behavior of consumers and behavior of the market environment.

Howard's book (13) for the Ford Foundation incorporated behavior both of the producer and of the consumer as organizing determinants of the marketing process. This work remains the only major marketing source to do so explicitly, and as such would be a classic but for Howard's overreliance on decision theory and unwillingness to abandon the economic model in the managerial behavior section. Other works, such as Howard (14) and Lazer and Kelley (15), emphasized the producer's role in organizing the marketing process. These managerially oriented authors did not belittle the importance of autonomous consumer and environmental behavior: in fact, they were unanimous in their support of the marketing concept, which credits ultimate power to the consumer. However, by omitting specific consideration of consumer and environment and by according prerogative of action to the producer, the managerial approach implicitly suggested that producer behavior molds the market. Commodity characteristics, existent institutions, and necessary functions may flavor the firm's decisions, but are not fundamental bases of market organization. The managerial approach, by stating that conscious decisions by the firm organize markets, placed the commodity, institutional and functional approaches in the past.

Consumer behavior became another area of theoretical importance to marketing. Like the managerial approach, consumer behavior theory presented only a partial theory of marketing. Consumer behavior theorists such as Andreasen (16), Engel, Kollat and Blackwell (17), Howard and Sheth (18), and Nicosia (19) placed the consumer in a reactive position. They presupposed an organized market within which the consumer evaluated and bought products. This approach concedes importance to actions of the producer, but the various consumer behavior theories restrict themselves to consumers, and do not theorize about producer behavior.

An environmental, or societal, approach to marketing also became increasingly popular. Grether's (20) work on marketing and public policy, based in the author's legalistic approach to marketing, gained new significance. Consideration of the market system as a good citizen within the social system became popular (for example, Preston, 21). Probably the major author to actually suggest societal goals as a fundamental basis for market organization was Kotler (22, 23, 24). The societal approach treated the market as a subsystem of the society which sanctioned it, and held that market values and market behavior are determined by the value structure of the social system. This approach offered the benefits mentioned earlier in connection with the systems approach, and was of indisputable significance if only because of the legal system's impact on market activities. However, a theory of marketing organized entirely through social factors would be prima-facie incomplete, and supporters of the societal approach did not claim it as a theory of marketing. The very existence of a societal sub-system called a market, whose boundaries can be delimited and whose specific properties are of interest, demands a marketing theory incorporating the special behaviors of that market's producers and consumers.

Modern marketing does not have a strong, binding theory. Future marketing theorists must unify theories of producer, consumer and environment behavior and provide links among these theories. This unification will produce a modern theory of marketing. Marketing thought almost certainly will not return to the economic model.

Wroe Alderson and Modern Marketing Thought

Knowing Wroe Alderson's place in marketing history facilitates evaluation of his thinking. Alderson's work presented the last major argument for organizing the marketing process without consideration of non-economic behavior. Alderson titled his final book Dynamic Marketing Behavior (25), and he always claimed organized behavior systems as his conceptual base, but the title and claim were misleading. The dynamism Alderson ascribed to marketing behavior was economically determined change which stemmed from recognition of market diseconomies or from changes in exogenous variables. Unsuccessful products introduced under an assumption of waiting demand might be dropped, as producers recognized the information error. A growing human population could increase market volume, and alter producer's positions on their marginal cost curves enough to make them allocate some functions to other firms, as Stigler (26) prescribed. Product innovation occurred in response to Schumpeter's (27) economic model, rather than through unexplainable inspiration as suggested by Popper (28). Alderson's organized behavior systems were organized through economic advantage, as Barnard (29) prescribed. The behavioral dynamics in firms acknowledged by March and Simon (30) or by Thompson (31) were not incorporated in Alderson's thinking. Perhaps the best example of the rigidity of Alderson's economic approach is his suggestion (32) that households arise because of economic advantage, ignoring cultural values regarding marriage or family structure. Alderson's thinking was advanced for its era, and may prove useful in market analyses where participant behavior is stable enough to approach being constant, but Alderson's thinking will not serve present and future marketing theory, with its necessary emphasis on behavior.

A point by point analysis of Alderson's theory of marketing supports this general appraisal. Alderson defined marketing as economic exchange between organized behavior systems. Organized behavior systems were defined through Barnard's (33) model, as collectivities whose organizing glue is economic advantage, and whose members all act to maximize organizational achievement. March and Simon (34) and Thompson (35) have pointed out weaknesses in economic theories of organization, and have offered alternatives. Mancur Olson's (36) theory of collective action offers another alternative, and one which assumes that all behavior is economically motivated. Alderson's own writings on organizations struggling for survival despite economic adversity and on organizations in self-imposed extinction modes acknowledge that organizations do not always follow economically optimal paths (37); given this acknowledgement, it is surprising that Alderson clung to Barnard's model. Also, Alderson discussed producer behavior systems organized around productive efficiencies and consumer behavior systems organized around consumptive efficiencies, but Alderson did not discuss the marketing link as an organized behavior system. More recent work on topics such as price-quality relationships (38) and salesmen's role in establishing decision criteria for ambivalent consumers (39) correct this deficiency.

Having defined marketing, Alderson labeled sorting, transportation, storage, credit, display and promotion as functions which must be performed in any marketing process. This list approximately conformed with the lists of other functionalist writers (Lewis and Erickson, 40, are an exception). Other authors accorded about equal importance to all functions, though, while Alderson centered upon sorting to the virtual exclusion of other functions. Sorting was presented as the basic function of marketing.

Sorting takes four forms--sorting out, or separating a homogeneous collection into sub-groups which are heterogeneous on some sub-attribute, assorting, or building up heterogeneous collections, allocating, or breaking a homogeneous collection into smaller, still homogeneous sub-groups, and accumulating, or building up homogeneous collections. Sorting is a physical operation which incurs unrecoverable costs; as a result, Alderson stated principles of postponement and speculation, where sorts either are delayed to minimize risk or are performed for an expected extra compensation for risk absorption. Alderson described searching as a non-physical, or mental analog to sorting. Searching incorporates all decision processes, and is performed with no cost.

The value of Alderson's focus upon sorting is open to question. Nicosia's useful review of Alderson's functionalism (41) might disagree with the contention that sorting was raised to a pre-eminent position, though Nicosia does not discuss any functions other than sorting in reviewing Alderson's conception of the marketing process. Even if Nicosia would agree to this contention, his review finds no fault with Alderson's emphasis on sorting. This paper holds a more negative view. Functionalist writers have had difficulty in exhaustively listing marketing functions, and this difficulty greatly complicates writings which emphasize all functions. Alderson's focus on one function sidesteps this problem. However, the problem of listing functions seems due either to deficiencies in marketing knowledge or to the economic approach of functionalist authors. Grappling with these causes would seem more valuable than sidestepping the problem by artificially raising the status of one function, and Alderson gives little indication that such elevation of sorting is justified.

Alderson's discussion of sorting showed two inadequacies. Sorting was taken as strictly physical, and separate from searching. This restriction is not useful. Consumer decision processes leading to a purchase are searching, while the purchase is sorting under this definition. Alderson would have studied the purchase, rather than its determinants. His acceptance of the economic model justified this approach, but modern belief in behavioral theory repudiates it. Also, Alderson claimed that searching occurred without cost. This contention is absurd. Cost-free searching, searching separate from sorting, and focus upon sorting as the basic function of marketing all reflect Alderson's economic point of view; a point of view in which the transaction is of supreme importance.

Sorting is the function which economic exchange performs, and economic transactions are synonomous with sorts. Alderson coined the term transvection to describe the entire process bridging product creation with final sale. Transvection, which can span many transactions, was stated as the appropriate unit of marketing analysis. Alderson noted that activities at each stage of the marketing process are organized by economies at that level, so that discrepancies of assortment which may not be optimal across levels arise. Discrepancies of assortment refer to phenomena such as manufacturers' large production of one product and wholesalers' lesser need for several products, which causes each manufacturer to deal with several wholesalers and each wholesaler to deal with several manufacturers. These discrepancies typically result in manufacturers pressing retailers or wholesalers to broaden their lines (to give the manufacturer maximum market coverage), and retailers or wholesalers pressing to reduce variety to a few profitable products. Resolution of these pressures can cause market diseconomies.

Alderson's statements about transvections revealed further unsatisfactory aspects of his theory. The organized behavior systems which participate in a transvection constitute the marketing channel. Alderson held that the channel, seemingly a system of systems, is an organized behavior system only when existence of the channel requires the existence and participation of all members. The weaknesses of this application of Barnard's organizational theory seem obvious. Channels in which weak members come and go would not be classified as systems, even if the channel's strong members formed a durable distribution structure. Also, Alderson claimed that the transvection was optimized by reducing its total cost to a minimum. This contention ignored Alderson's belief that transvections create time, place and sometimes form utility; if transvections create utility, then the optimum transvection would maximize the difference between value added and cost.

Within the general framework of economically motivated transvections, Alderson's thinking was a mixture of economic and non-economic concepts. Many of Alderson's non-economic ideas foreshadowed later applications of behavioral theory to marketing. Alderson felt that consumers multiplied the probability of using a product by its utility if used, and then chose products which yielded the highest expected value. He labeled consumer behavior as economically instrumental behavior, as opposed to socially congenial behavior or irrational, symptomatic behavior. However, Alderson proceeded to give examples of congenially determined consumer purchases and of symptomatically determined consumer purchases. Both examples contradicted the prior assertion that consumer behavior is instrumental, and suggested a need for non-economic considerations in marketing theory. Alderson foreshadowed modern thinking on brand loyalty and product-customer spaces by noting that products occupy points in the continuously heterogeneous demand space, so that loyalty varies with preference distance, and core markets can be distinguished from fringe markets. Alderson also foreshadowed Howard and Sheth's (42) time pressure concept by claiming that consumers allocate shopping efforts to make optimal use of their time. Neither contention inherently contradicted the economic model, but both differed from traditional economic thought. Alderson's treatment of innovation clearly deviated from economic theory: he held that consumers will notice only threatening innovations, with threat being a function of social factors. Alderson assumed that consumers would apply value analysis to noticed innovations, but he again broke with economic tradition by suggesting that consumers buy in cycles in order to reconcile desires for repetition and variety (foreshadowing the Howard and Sheth psychologies of simplification and complication).

Perhaps Alderson's best contribution to marketing theory was his theory of the search for differential advantage. Because demand is heterogeneous, products which also are heteorgeneous find monopolistic niches in the marketplace. Monopoly offers appealing securities to producers. They consequently attempt to differentiate their products, and to find maximally profitable niches in the market (shared large markets may be more profitable than monopolized small markets). Alderson termed the scramble for niches the search for differential advantage. Differential advantage has the corollary effects of capturing consumers whose preferences lie near the achieved position and of rebuffing other consumers.

Differential advantage can occur in six ways. Differentiation through market segmentation focuses servicing efforts upon specific consumer groups, thus permitting economies of service which allow price-cutting and subsequent market dominance. Differentiation by selection of appeals uses advertising to situate products in market preference niches. Differentiation by transvection manipulates the distribution channel to gain price-beneficial cost of reductions and to gain locational and display advantages. Differentiation by product improvement, differentiation by process improvement and differentiation by product innovation all are self-explanatory. This delineation of sources of differential advantage followed the economic model, but transcended previous economic thinking.

Alderson believed that firms could pursue differential advantage by changing the market structure of which they were part, and thus facilitate their functioning within that structure. Differentiation by transvection would be an example of such change. The free will implicit in this belief violated the economic model. Alderson also differed with traditional economists in using the concept of differential advantage to bring technological change within marketing theory. Traditional economics treats technology as an exogenous variable, a given which partially controls but does not enter the marketing process. Alderson stated that marketing by nature forces participants to seek technological advance, which often occurs in process or product improvement. Active search for technological advance makes it an endogenous variable (in fact, Alderson discussed the economics of proper timing for technological change). Alderson's attitude on this point is consistent with Schumpeterian theory (43).

As mentioned, Alderson's theory is an economic theory with unreconciled non-economic elements. These non-economic elements both damage and strengthen the theory. They weaken theory consistency, and must be purged to make Alderson's theory formally adequate. They also offer insights used in current marketing theory, and thus provide pragmatic justification for Alderson's theory. Alderson's theory of marketing would be consistent, but trivial if its non-economic elements were eliminated.

Alderson's Functionalism and Modern Marketing Theory

This paper has criticized the functionalist theory of marketing associated with Alderson, McGarry and others because of its economic approach. Such criticism does not necessarily invalidate functionalism as an approach to marketing theory. Even disregarding the economic aspects of this theory, though, Alderson's functionalism does not seem satisfactory for modern marketing theory.

Modern authors about human organizations (such as Weick, 44) approach organized behavior systems with a type of functionalism. Humans act to gratify themselves. Behavior occurs because it somehow produces gratification for the actor. Organized behavior systems are built around interlocking behaviors which gratify interacting humans. These behaviors are the appropriate bases of organizational theory and marketing theory. Personality theory, life cycle or life style theory, and other theories which approach organized behavior systems through characteristics of participants or their environment may offer valuable insights into the bases for gratification, and thus for behavior, but these theories are not directed toward the proper organizing factor in organized behavior systems--behavior. Theories focused on behavior can be termed functionalistic, because they accord functional utility to behavior and because they attempt to locate functional stabilities in organizations. Role theory, an example of behavior centered approaches to organizations, is functionalistic.

The functionalism of these theories materially differs from Alderson's functionalism. Alderson's functionalism is prescriptive functionalism: functions which every marketing system must perform are stated. Prescriptive functionalism applies only to prescriptive behavior models. Alderson's functionalistic approach becomes untenable when the assumption of economically rational behavior is dropped. Prescriptive functionalism also applies only to functionally static behavior systems. More modern theories do not prescribe functions: normative functionalism exists to whatever extent laws of interpersonal behavior exist, but these theories' functionalism generally is a highly situation-specific approach. This functionalism bases itself on motivation and cognition. Normative statements, when made, rely on an explanatory basis. Non-prescriptive functionalism acknowledges the arguments of Stevens (45), Kaplan (46) and Popper (47), which imply that the human environment is of human creation, and that behavioral prescription is tenuous. Non-prescriptive functionalism is the appropriate theory-building approach for organized behavior systems.

Alderson's functionalism may prove useful in marketing application despite its deficiencies. The economic model may fairly characterize many marketing relationships, and the sorting function may be sufficiently important to determine the organization of those relationships. Alderson's approach offers a short-cut in analysis of such marketing relationships. Unfortunately, Alderson offered no remedies should the analysis find problems; he apparently considered description enough. Where the economic model explains most market behavior, but sorting alone does not organize the market, Alderson's thinking in conjunction with Edmund McGarry's thinking may prove useful. Complete behavioral modeling is unnecessary and unreasonably expensive in such situations, and prescriptive functionalism becomes a good alternative. However, Alderson's functionalism will not characterize enlightened efforts in future marketing theory construction.

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THREE MODELS OF DISTRIBUTIVE CHANGE

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A question of substantial interest to students of marketing systems is why and how marketing systems change. The recent history of marketing has witnessed considerable changes as new institutions and structure have emerged (11, 12, 17, 26, 36). A major structural change which has taken place in many marketing systems has been the partial replacement of decentralized structures by centrally coordinated ones. Identifying the dynamic forces underlying these changes is, therefore a major task for macro-marketers.

The growing importance of the new systems has attracted an increasing interest of marketing scholars who have attempted to explain the rationale for their emergence (6, 8, 13, 26, 28, 29, 35, 36, 37, 38, 46, 48, 51). However, published works on the subject are usually of non-empirical nature and tend to be characterized by a "list approach" whereby the author presents a list of presumed advantages and disadvantages of centralized coordination as the rationale for the emergence of the new systems. Those usually reflect the intuitive feelings and expectations of the writers; explicit linkages to specific theoretical models of distributive change are not expounded. Furthermore, the focus of most of the studies has been on the results associated with or expected to take place in centrally coordinated systems. Little effort, however, was made to present the causes which generate the development of such systems.

In this study, a more scientific approach is used. First, models which explain the rationale for the emergence of new systems are developed. Testable hypotheses are then derived from the models and tested with empirical data. Due to the complexity of the marketing phenomena explored, several models which can "explain" them can be developed and have to be considered. Consequently, the purpose of this study is to present examine and test three distinct models which explain the emergence of centrally coordinated marketing systems. In the first part of the paper, the models are presented. In the second, results of an empirical study which tested these models within a framework of a specific industry are presented and discussed. Finally, several implications of the models, the study, its methodology and results are discussed.

CONVENTIONAL AND CENTRALLY COORDINATED VERTICAL MARKETING SYSTEMS

The separation of production and consumption dictated by economic laws of specialization has led to the emergence of vertical marketing systems, namely of sets of managerial units which perform chronologically subsequent production and marketing functions and which provide customers with products and services at time, location, quantities and sizes preferred. The economic advantages of vertical specialization are, however, offset partly by the necessity to coordinate the performance of the various units operating at different stages of production and marketing. The coordination is required to ensure the satisfactory performance of the system as a whole.

Traditionally, the majority of goods and services in the U.S. have been distributed through <u>conventional marketing systems</u> composed of independent manufacturers and resellers who are loosely connected with each other and who align themselves periodically to carry out specific transactions.

In such systems long term associations may develop infrequently and only on a non-binding basis. In a conventional system, vertical coordination is achieved primarily through the operation of intermediary markets and the price mechanism. Thus, for example, manufacturers who want to introduce new products have to provide enough economic incentives to the resellers to induce them to carry the new products. However, the final decision is up to the resellers themselves. In such systems, each member determines independently how to operate. He weighs the benefits and the costs of each action alternative (though not necessarily only in economic terms) and then chooses the one which maximizes his satisfaction (utility). Other channel members can influence his decisions only by providing him with incentives designed to induce him to follow a specific direction but not directly.

Alternatives to the conventional system arrangement are the centrally coordinated systems which rely more on administrative rather than market oriented modes of marketing system coordination. In centrally coordinated systems, some or all of the marketing activities of a system member are determined not by him but by another channel member who then informs all concerned how they should operate.

Marketing literature identifies three major categories of centrally coordinated systems: corporate, contractual and administrative (31, 37). Corporate marketing systems combine successive stages of production and distribution under a single ownership. Such marketing systems have existed for a long time but their importance has risen in the post-war period as a result of mergers and internal expansion. Contractual marketing systems are characterized by the extensive use of contractual arrangements whereby independent firms at different system levels coordinate their activities on a contractual basis. Contractual systems include such diverse subsystems as franchise retailer or wholesaler programs, voluntary chains and cooperative groups. Administrative strategies involve a less formal mode of marketing system coordination realized by some powerful channel members. Those firms secure the compliance of system members to their marketing policies by exercising their power and relying on their own capacity to reward and/or punish substantially other system members.

DIFFERENT APPROACHES TO THE STUDY OF DISTRIBUTIVE CHANGES

In studying the emergence of centrally coordinated vertical marketing systems, two different approaches can be adopted. The extrasystem approach views the marketing systems primarily in a socio-functional framework. It is viewed as a social mechanism designed to satisfy the marketing needs of the users (buyers of the goods and services involved). Such systems are, therefore, expected to change when and if new structures can respond better to customer needs.

The intrasystem approach is more behaviorally oriented. It considers the individual firm which operates in a marketing system, its goals, and its interactions with other system members.[1] According to this approach, structural changes will occur as an end result of intrachannel interactions.

The Extrasystem Approach

A convenient point of departure here is the cost of performance model of distributive systems developed by Bucklin (9). The model proposes that due to the separation of production from consumption a demand for marketing services develops. The services can be provided by the consumers themselves as well as by the commercial sector of a marketing system (producers and middlemen). A decision, therefore, has to be made as to the allocation of the performance of each marketing service between the consumer and the commercial channel entities.

For this purpose, a cost minimization model is developed by Bucklin. The major constructs of the model are two cost functions: one represents the average costs borne by the commercial sector when performing various levels of a marketing service; the other the average costs borne by consumers who self-perform that part of the services not provided by the commercial sector. The model proposes that the optimal pattern of allocation is the one that minimizes total system costs, i.e., those of the commercial sector plus those of the consumer. Under competitive conditions and with no political or legal barriers to entry into the system, the structure of a marketing system adjusts to a point where no other structure could provide the desired level of services more cheaply. Given both commercial and consumer sector costs of performing marketing functions this desired level of service is determined simultaneously with the structure of the system.

The normative channel stage, however, is often unstable and elusive. As conditions change, new opportunities for cost reduction emerge encouraging structural changes. Structural changes develop because of two distinct reasons -- greater efficiency and greater effectiveness. Centrally coordinated systems emerge because they are more efficient, i.e., they can provide basically the same marketing services at lower costs, or because they are more effective; namely, they can provide the level of services required by consumers which differs from the level of services provided by a conventional marketing system.

The Cost Efficiency Model

According to this model, centrally coordinated marketing systems develop when they can provide to users basically the same level of marketing services as the conventional marketing systems but at lower costs. A major premise here is the recognition that coordination and management takes place in both types of vertical marketing systems and that these are not costless. In conventional marketing systems, costs of coordination reflect the costs associated with the operation of intermediary markets and with the frictions which are often inherent there (15, 50). In centrally coordinated marketing systems, the costs are associated with the centralization of decision making (2).

In the perfect world of microeconomic theory, markets are depicted as frictionless and costless mechanisms of equating demand and supply. In effect, conditions often differ. Broadly, three major groups of causes may contribute to such costs and frictions: a) technological, linked to conditions of production and marketing; b) transactional, which reflect the conditions surrounding the exchanges which take place in intermediary markets; and c) behavioral, which affect the conduct of system members.

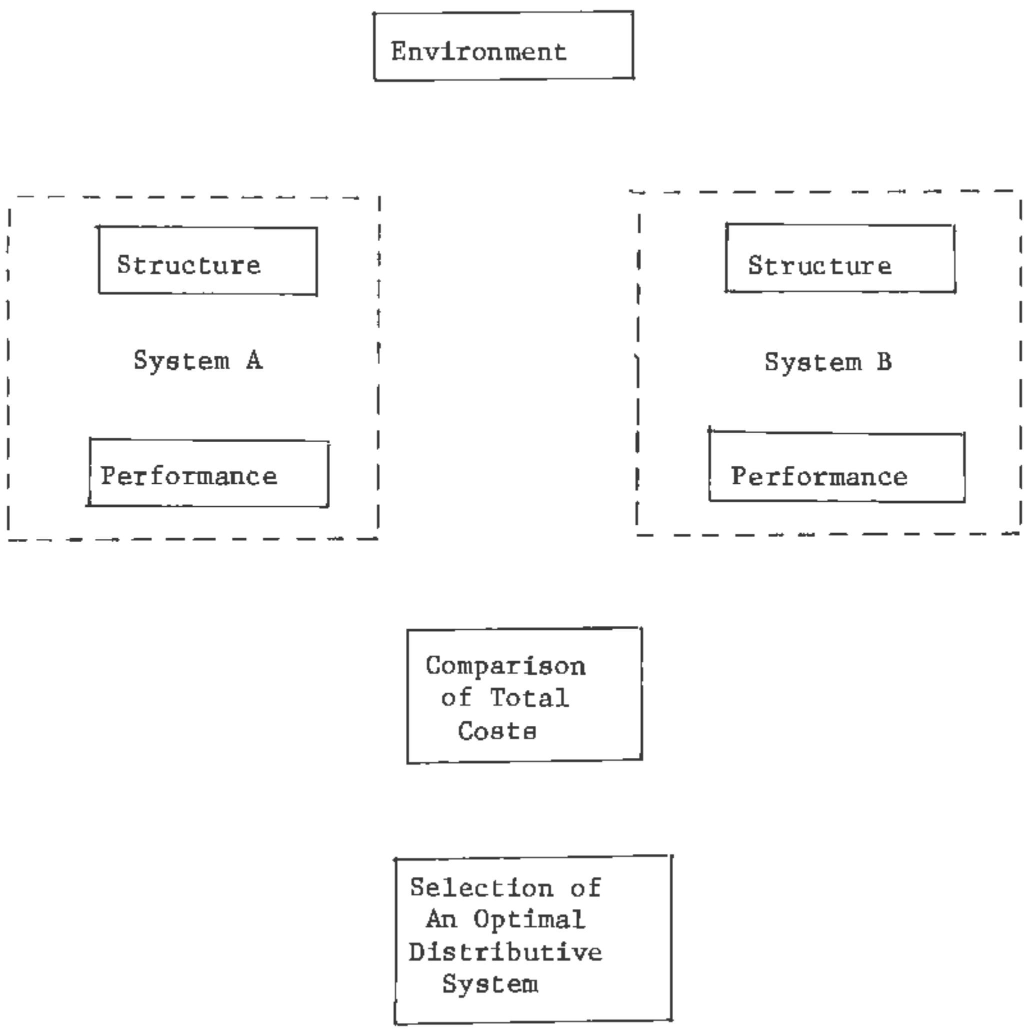
Because the nature of these cost factors has been expounded in detail elsewhere (20), they will be only briefly discussed. Technological factors of production and marketing primarily pertain to the existence of indivisibilities, inseparabilities and externalities which often characterize marketing functions. Because of their inherent interdependencies, results of producer's and reseller's activities may often bear directly upon activities of other system members (6, 8). Fragmented decision making may disregard these interdependencies. Consequently, channel members making decisions independently of each other may select decisions which seem optimal to them but which in effect are not the least-cost solutions for the system as a whole. Exchange factors are associated with the demands that operation in intermediary markets imposes upon those who use them. In particular, search for trade partners, negotiations, and bargaining may often require buyers and sellers in intermediary markets to devote substantial resources to these activities. Behavioral factors refer to the fact that conventional marketing systems often exhibit characteristics of a social system with prescribed norms of behavior for distinct channel positions and where conflict of interests among the various channel members can often be expected (43). Rigidity of social norms may impede necessary adjustments dictated by changes in system environments detracting from channel efficiency. Intrachannel destructive conflicts increase costs as resources are diverted to conflict control and containment (45).

The costs of use of administrative modes of coordination are primarily related to the increased complexity of decision making in these systems. Divorcing operation (entrusted to channel members) from decision making (transferred to a channel leader) lengthens lines of communications and increases communicative noise. Due to centralization of decision making, flexibility of system operations is also often affected (33).

The relative rather than absolute advantages of each system (in terms of costs) implies that the advantages of each system are basically situation specific and depend upon the environmental conditions which a channel encounters (Figure 1). At particular situational conditions, one type of a system is superior (in terms of costs) and most widely used. Changes in the environment may, however, affect the advantages of a currently used system. New conditions may increase its costs of operation and make an alternative system more appealing. As a result, structural changes may occur.

FIGURE 1

A Distribution System Selection Process



The Reduction of Services Model

The emergence of centrally coordinated marketing systems can be attributed also to another propelling factor -- a change in the structure of the demand for marketing services of consumers. As expounded by Bucklin's cost-effectiveness model, such demand depends upon a consumer's decision as to the allocation of marketing functions that have to be performed between his household and the commercial entities, and reflects the relative costs of self-performance vs. commercial performance of such functions.

Recent developments of the economic theory can assist us in comprehending this issue. Following works of Muth (40) and Becker (4) we may consider the household not only as a consuming unit which derives utility from consuming products, but as a complex entity which combines both consumption and production functions. The household derives utility not directly from the products and services it buys, but from the benefits these products provide. To "produce" these benefits from the products purchased, the household has to employ its own resources in some form of a production function. For example, meat purchased (as such) does not provide any benefits to the consumer; it has to be cooked and prepared first. Utility is derived only from the well-prepared steak.

A similar analysis applies for marketing services which provide intangible benefits to the consumer. The consumers thus have to employ some of their resources (time, capital goods) to provide those marketing benefits which are not provided by the marketing system (such as storing the product or bringing it home from the supermarket).

$$c_j = f_j(L_{ij}, P_{ij}) \qquad i = 1, \ldots, n \qquad (1)$$

Equation (1) presents a formal cost function of self performance of a marketing service(s). Costs are defined here as a function of consumer resources used such as labor, storage space, etc. (L_i), and the "prices" of these resources which represent their economic value to the consumer (P_i). Increased efficiency (i.e., better input-output ratio) decreases c_j. Similarly, as the "value" of resources used by the consumer to produce marketing services goes up, costs of self production increase and vice versa.

The factors which affect costs of self production are obviously many. Some could be mentioned briefly. A factor of major importance is education. Several studies indicate that higher levels of education of the population facilitates information processing and allows people to perform more marketing functions directly (47). The product selection function, a service traditionally provided by retail clerks, has been shifted to the consumers presumably because the education of the latter has improved (23, 41). A similar effect is achieved by mobility. Increased mobility (ownership of a car, improved road system, etc.) reduces costs of transportation to the consumer and therefore reduces also the costs of self transportation of products bought. When this happens, self delivery becomes less expensive; consumers will therefore be more willing to provide their own delivery service.

A change in self performance costs of marketing services will generate a structural change when different marketing systems perform unequally. <u>If one system is more efficient when producing lower levels of marketing services than another, a decline in the overall demand for marketing services for the consumers will encourage the growth of the former and the demise of the latter</u>. This model can, therefore, provide an alternative explanation for the emergence of centrally coordinated vertical marketing systems.

Such systems may have appeared as a result of a decline in the demand for marketing services provided by the marketing system and because they can provide a lower level of services more efficiently.

The very advantages of centrally coordinated systems, namely, the ability to plan and manage the system as a whole, can interfere with the provision of many marketing services. Centralized management is based on efficient planning, careful control and exact monitoring of the activities of individual channel members; it is usually best achieved when human inputs in the system are minimized (14). Many services, however, are labor intensive, and their satisfactory performance requires direct person-to-person relationships between buyers and distributors. Furthermore, operation at large scale, a prerequisite for centralized coordination, often implies or requires that the level of services provided by the system to its customers has to be reduced. To achieve product standardization necessary for the use of capital intensive technologies, product variety has to be curtailed. Automation and introduction of self-service reduced personal selling service, while in order to benefit from economies of scale, retail outlets have to be large and to draw their buyers from larger trade areas, reducing the location conveniences of the customers.

The Intrasystem Approach

The premises of the third model differ substantially from those presented above. This model focuses attention on intrasystem relationships and views a marketing system as an inter-organizational set. As pointed out by Cyert and March (16), organizations rarely behave in a way which maximizes the utility of their customers only. More appropriately, organizations have to be viewed as coalitions of diverse interests in which an attempt is made to satisfy (to a degree) the (sometimes diverse) needs of all parties involved. Structural changes in marketing systems may, therefore, also reflect the goals and preferences of system members themselves.

What characterizes a marketing system in this context is its cooperative nature. It is a social system set up by its members to achieve certain common goals. Following frameworks of analysis developed by Barnard (3) and Alchian and Demsetz (1) for describing organizations, it should be recognized that to achieve their goals, individuals and business entities often have to work in teams. What one cannot accomplish alone, can be achieved through an organization relying on cooperation of its members. However, each member of a marketing system is willing to continue to contribute his resources to it only as long as the inducements he receives from it exceed the contributions. If the former exceed the latter, he will leave the system. Similarly, if in another system he will receive more benefits and will be required to contribute less, he will leave his current system and join the new one.

As environmental conditions change, some members in conventional systems may realize that their contributions to the system exceed their rewards, or that the latter do not fully express their potential reward opportunities. They will attempt to establish their own controls, but in such attempts they may often be frustrated by institutional or legal constraints and by the pressures of other system members. The result is an inherent conflict within the channel and a struggle for channel control (44, 45). Different channel members will fight with each other attempting to wrest channel leadership position (32).

<u>The Countervailing Power Model</u>

A possible result of this struggle for power proposed by Galbraith is the "countervailing power" balance (24). Galbraith suggests that a social system has a tendency towards an equilibrium of forces -- in this case equilibrium of power relations. According to this theory, concentration of power at one end of a marketing system brings forth forces which strive to neutralize it by developing countervailing power at the other end of the system. For example, rise of powerful monopolistic manufacturers has been eventually countervailed by the rise of powerful mass distributors.

The argument was effectively attacked by several economists. Heflebower (27) suggests that in marketing systems the opposite has happened. Mass merchandisers do not operate in the same marketing systems as the large manufacturers, but primarily deal with smaller manufacturers. Similarly, large manufacturers cooperate primarily with smaller retailers.

Heflebower's conclusions can be extended to propose a theory of <u>power disequilibrium</u>. Marketing systems composed of equally powerful members are not stable; their conflict potential is high, implying prolonged negotiations and outright bargaining. Such situations often erupt into outright wars with devastating effects on both sides. The relative instability and ineffectiveness of marketing systems characterized by a balance of power, suggests that it is the <u>unbalanced rather than balanced power arrangements which will prevail in marketing systems</u>. In such systems, the leadership of a specific member (or group of members) is acknowledged by other system members. In return for their compliance, the latter receive from the leader various economic benefits -- financial incentives, shielding against uncertainty and efficient system management (21).

The drive for countervailing power will thus be reflected not in changes in existing marketing systems but in the development of new marketing systems. System members who have been controlled in conventional systems may opt to leave them once they realize the difficulty of changing power relations in existing structures, and establish separate marketing systems. To ensure their own controls in the new systems, they will establish centrally coordinated systems.

THE EMPIRICAL ANALYSIS

Background

The three models presented above were tested within the framework of the casualty and property insurance industry. Traditionally, the channels in this industry included only two levels: the insurers and the independent insurance agents who are that industry's counterparts to the conventional retailers. The agent is an independent businessman who owns his agency, makes his own marketing policies and represents several insurers. He has also a right to expirations -- a legal right to receive commissions on policies subsequently ever sold to a customer he has successfully ever solicited. This right effectually allows the agents to "own" their accounts and if necessary to shift them to different insurers (18).

Since the 1950s new types of marketing structures have expanded rapidly in this industry (30, 47) which were characterized by centralization of decision making. Broadly, two new major categories have developed. In the exclusive agency system the retailer is still an independent businessman. However, he does not have the right to expirations and represents one insurer only; furthermore, his freedom of policy making is heavily restricted. He has to sell only those insurance products allotted to him, operate in preselected trade areas and use specific advertising campaigns. All this suggests that such an agent operates on a basis very similar to that of a regular franchisee. In corporate owned systems, insurance is sold directly by insurers' employees on a personal basis or through the mail.

Methodology

The existence of three distinct and different models which can explain the emergence of centrally coordinated marketing systems in the property and casualty insurance industry has imposed upon the researcher the task of determining which model is the best. The purpose of a model is to make predictions concerning phenomena in the real world and in many respects the most important test of a model is how well it predicts these phenomena.[2] The thrust of the data analysis in this study was, therefore, on the empirical validity of each model.

It was decided to select the "best" model on the basis of its ability to predict outcomes; namely, the extent to which results predicted by each model have taken place. The specific predictions of each model could be summarized as follows:

1. The Cost Efficiency Model: The centrally coordinated system is more efficient than the conventional system.
2. The Decline of Services Model: The centrally coordinated system provides fewer services to its customers than the conventional system.
3. The Countervailing Power Model: The insurors in the centrally coordinated system have more control over their agents than the insurors in the conventional system.

Research Design

The thrust of data analysis consisted of a comparative analysis of the dimensions of system performance discussed by each of the three models, across the conventional (the independent agency) and the centrally coordinated systems. The data for the analysis was collected from a random survey of independent and exclusive agents operating in California. Because of difficulties in obtaining data about corporate systems in this industry, these were excluded from the analysis. A structured questionnaire was sent to close to 600 agents; 48 responses (14% response rate) were received from the independent agents and 68 responses (28% response rate) were received from the exclusive agents. Several tests have revealed that the responses came from agencies of diverse backgrounds and that they well represent the overall population of independent and exclusive agents operating in California (19, Ch. 5).

Through the detailed questionnaire, three different kinds of information were sought. The agents were requested to provide information about: (1) the efficiency performance of their respective marketing systems, (2) the service performance of these systems, and (3) agents' dependence upon their insurers and insurers' control of the marketing system. For this purpose, with the assistance of channel and insurance literature and an exploratory research, three sets of variables were identified. The first set of variables explored vertical efficiency factors such as productivity at the distributive level, extent of duplication of functions between insurers and agents, quality of intrachannel communications, speed of intrachannel flows, degree of adoption of new technologies and degree of standardization in the system. The second set of variables gauged quality of underwriting performed by agents, quality of claim servicing, and assistance in processing and accepting insurance applications. The third set of variables measured agents' dependence on insurers' promotional campaigns, levels of compensation received by agents from the insurers, and agents' perceptions of overall insurers' control of the marketing system. Other variables measured the agents' ability to force insurers to insure high risk insureds (an inverse measure of insurers' control), and amount of selling effort exhibited by the agents. All these measures reflected the various aspects of insurers' ability to control their agents.

Data Analysis

To determine the explanatory power of each model the three sets of variables were separately used in a discriminant analysis designed to differentiate agents who belong to the independent and the exclusive agency systems. Several criteria were then considered for evaluating the explanatory power of each model. The criteria were as follows:

1. The discriminatory power of the independent variables as reflected by the size of the coefficient of discrimination associated with each function;
2. The classificatory power of the discriminant function as reflected by the percent of agents correctly classified by each discriminant function;
3. The explanatory power -- the percent of independent variables in each discriminant function which differentiate significantly between the two groups of insurance agents; and,
4. The predictive power -- the percent of independent variables in each discriminant function whose signs have been predicted correctly by the pertinent model. Thus, according to the first model, exclusive agents should rate higher on the cost efficiency

variables than the independent insurance agents; the second model predicts that exclusive agents should score lower on the service variables; and the third model predicts that they should report greater insurer control in their marketing channels.

RESULTS

The results of the three discriminant analyses are presented in Tables 1 to 3. Table 4 presents the summary of the results and the performance indices computed for each model.

The results indicate that the cost efficiency model is best equipped to describe the phenomenon at hand. Its discriminatory, explanatory, classificatory, and predictive powers are superior to that of the other two models.

IMPLICATIONS

The results of this study indicate that new marketing systems have developed in the property and casualty insurance industry because they are more efficient. The desire of the insurers to countervail the power of the agents in conventional channels and to impose their controls over their channels may have also played a part but only secondarily to the efficiency consideration. The increased efficiency has apparently enabled the centrally coordinated systems to increase continuously their market shares in the industry. More advanced promotional strategies allowed more rapid market penetration while cost advantages may have been used to lower prices and attract larger market segments.

What forces have facilitated the emergence of the centrally coordinated system in this industry? The analysis here has to be primarily speculative and hypothetical. One hypothesis is that environmental changes in the

TABLE 1

Results of The Discriminant Analysis for The Cost Efficiency Model

Independent Variables[a]	Standardized Discriminant Function Coefficients	Coefficient Signs Correctly Predicted by The Model
1. Degree of concentration in one product line (0-if agent derives 65% of his revenue or more from one product line, 1-if he does not)	-.839[b]	
2. Average number of days required to issue endorsements to personal line policies	-.822[b]	
3. Degree of standardization of accounting procedures between insurers and agents (1-very different, 5-very similar)	.515[b]	
4. Extent of adoption of new managerial techniques (4-very heavy use, 20-very light use)[c]	-.472[b]	
5. Average number of days required to issue new personal lines policies	.352	
6. Contact intensity (number of hours/dollar sales spent by agents per month on intrasystem contacts)	.280	
7. Productivity (sales per employee)	.247[b]	
8. Extent of duplication (5-high duplication, 25-low duplication)[d]	.195	
9. Incidence of intrasystem communicative noise (percent of incorrect messages)	-.151[b]	
10. Use of mass media (0-if mass media is used, 1-if it is not)	-.123	
11. Use of electronic data processing (0-if EDP is not used, 1-if it is)	.061	
12. Average number of days required to provide quotes for special personal lines risks	-.032	

Table 1 (continued)

Wilks Lambda = .460[b]

Centroid of Group 1 (Centrally coordinated system) = .902

Centroid of Group 2 (Conventional system) = -1.278

Percent of cases correctly classified = 85.3[b]

[a]All variables are presented according to the descending order of their coefficients.

[b]Significant at $p < .05$

[c]The variable here is a composite index which monitors the degree of adoption by distributors of formal managerial training, salesman training, budgeting and financial planning and market research. Each dimension was monitored with a 1 to 5 Likert scale. The overall index was composed by an addition of the individual rankings.

[d]An additive index composed of a sum of agents' rankings of degree of duplication in their channels pertaining to claim handling, underwriting, promotion, billing, and renewal handling. The individual scales rank from highly duplicated (rank 1) to not duplicated at all (rank 5).

TABLE 2

Results of The Discriminant Analysis for The Reduction In Services Model

Independent Variables[a]	Standardized Discriminant Function Coefficients	Coefficient Signs Correctly Predicted by The Model
1. Home inspection practice (1-inspect all homes, 5-no inspection is made)	1.387[b]	
2. Percent of cases with pending claims where agents succeeded to improve initial customer claim settlements		
a. Homeowners insurance	-1.200	
b. Automobile insurance	1.127[b]	
3. Length of time (working days) required to settle bulk of:		
a. Homeowners claims	-.928	
b. Automobile claims	.753[b]	
4. Percent of personal lines customers interviewed in person	-.539[b]	
5. Underwriting service at renewals (1-review all files, 5-none)	-.486[b]	
6. Percent of automobile claims cases where agents interviewed on client's behalf	.419[b]	
7. Percent of unsatisfied homeowners claims receivers	.418	
8. Percent of homeowners insurance applications successfully placed by agent	-.349	
9. Provision of non-insurance information (0-provides, 1-does not)	.276	
10. Percent of cases agents influence insurers to accept initially rejected automobile insurance applications	.247	

Table 2 (continued)

	Standardized Discriminant Function Coefficients	Coefficient Signs Correctly Predicted by The Model
11. Percent of unsatisfied automobile claims receivers	.213	
12. Percent of cases agents influence insurers to rescind cancellations of automobile insurance	-.207	
13. Percent of cancellations (automobile insurance)	-.129	
14. Percent of cancellations (homeowners insurance)	-.094	
15. Percent of automobile insurance applications placed by agent	-.039	
16. Percent of cases agents influence insurers to rescind cancellations of homeowners insurance	.028	
17. Percent of cases agents influence insurers to accept initially rejected homeowners insurance applications	-.011	
18. Percent of homeowners claim cases agents intervened on clients' behalf	-.002[b]	

Wilks Lambda = .368[b]

Centroid of Group 1 (Centrally coordinated system) = -1.091

Centroid of Group 2 (Conventional system) = 1.544

Percent of cases correctly classified = 89.5[b]

[a]All variables are presented according to the descending order of their coefficients.

[b]Significant at $p < .05$

TABLE 3

Results of The Discriminant Analysis for The Countervailing Power Model

Independent Variables[a]	Standardized Discriminant Function Coefficients	Coefficient Signs Correctly Predicted by The Model
1. Degree of control exerted by insurers in the channel (1-very high, 5-very low)	.787[b]	
2. Extent of agents' dependence upon insurers' promotion (1-very high, 7-very low)	.544[b]	
3. Agents' average commission rate for		
a. Homeowners insurance	-.491	
b. Automobile insurance	.007	
4. Percent of high risk customers accepted	.141	
5. Percent of cases where agents forced insurers to rescind cancellations or refusals	-.136	
6. Number of weekly hours worked by agency owners (1-less than 20 hours, 5-60 or more)	-.096[b]	

Wilks Lambda = .778[b]

Centroid of Group 1 (Centrally coordinated system) = -.445

Centroid of Group 2 (Conventional system) = .631

Percent of cases correctly classified = 72.4[b]

[a]The variables are presented in a declining order of their coefficients

[b]Significant at $p < .05$

TABLE 4

The Discriminatory, Classificatory, Explanatory and Predictive Powers of The Three Models

	Cost Efficiency Model	Service Performance Model	Countervailing Power Model
Discriminating power	.460	.369	.778
Classificatory power	85.3	89.7	72.4
Explanatory power	50.0	38.1	42.9
Predictive power	83.3	46.7	71.4

characteristics of demand, the nature of the insurance product and data processing technology have accumulated in the post-war period and have created an increased impact. The independent agency system was initiated in the latter part of the 19th century because the agent could serve a widely spread, thinly settled population which had diverse insurance needs. The agent designed specific policies to suit individual needs of the farmers, property owners and businessmen and sold separate insurance policies against property losses (fire, floods, thefts) and against casualty losses (5).

In the post-World War II period, urbanization, growing economic affluence and the emergence of the automobile coverage as a primary insurance need for many have changed all that. The insurance distributors have had now to serve more compact communities and automobile coverage became the primary insurance product. Standard insurance policies were developed by insurers. Thus the environment that the property and casualty insurance industry now had to face became predictable, stable, and relatively simple (7, 18, 38). At the same time, increased sophistication in underwriting, the emergence of computer technology and of mass media advertising, created system-wide opportunities of large-scale savings (25). System-wide operations allowed economies of scale in underwriting, data processing, money handling and advertising. Computer technology also facilitated system-wide controls. All this may have increased the advantages of centralized coordination while reducing its costs. Its relative advantage over conventional system arrangements has become more sharp and indeed entrepreneurs to initiate and expand such systems.

CONCLUSIONS

The constant changes which one witnesses in distributive channels is a phenomenon of major importance. Managers must understand the causes of such changes and their dynamics in order to be able to design fitting marketing strategies. Public policy makers must comprehend these trends, too, in order to make policies which will effectively help the consumer rather than hurt him.

The richness of the phenomenon of marketing systems suggests that often more than one vector of forces may be at work. The development of distributive systems is shaped and affected by many diverse factors; some representing the feelings and needs of their customers; others the drive and policies of system members. Consequently, distributive changes and emergence of new distributive structures may be explained by several alternative models. The researcher is required to determine not only whether a specific model is correct or not, but which model "best" explains a given phenomenon.

This was the task which faced this researcher when he explored the distributive changes which have taken place in the property and casualty insurance industry. The study has presented specific models which are general and applicable to all industries which experience the emergence of centrally coordinated marketing systems. The study also indicates how much models could be tested empirically. In spite of the importance of the topic, analysis of distributive changes has been for a long time restricted to arm-chair discussions. Empirical analysis by marketing scholars have been minimal and usually restricted to manipulation of secondary data. This study will hopefully stimulate additional research about distribution dynamics and help to identify forces which generate such changes. In the process, presumably, new models and insights will be provided; the ones proposed here may be expanded, changed or discarded in favor of better ones. Whatever will be the results, marketing theory will surely benefit.

FOOTNOTES

1 It is usually quite difficult to determine the utility function of a firm except for the cases of single owners-managers. Whatever the procedure used, we assume that for each firm which operates in the channel, a definite utility function can be determined which will indicate which end results are to be preferred and thus can allow management to rank all relevant end results according to some preference ranking.

2 Other criteria are important, too. For detailed analysis of this issue see (51).

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A THEORY OF MARKET PROCESSES

by

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The objective of this brief paper is to suggest the outlines of a theoretical framework of a marketing system that can operate with a wide variation in the proportion of transactions that are private, monetary exchanges as opposed to centrally planned transfers. The first part of the paper outlines some of the behavioral assumptions of such a model and the latter part identifies a mathematical model that has been given limited tests in Kenya and the United States.

There are two significant differences between economics and marketing that merit consideration in sketching a novel theory of market processes. First, classical and neoclassical economics have been defined as the theory of the allocation of scarce resources, and marketing could equally be identified as the theory of allocation of abundant resources. Second, economics has looked at both the buyer and the seller behavior, while marketing has generally neglected the sources and distribution of consumer income. The result has been an incomplete model of market processes and thus neglectful of welfare issues. Except in minority and development marketing, marketing has ignored how consumers get their income. It is, I believe, necessary to consider the relationship between the distribution of shares of income and the distribution channels along which that income flows in order to develop a theory of market processes.

It would be useful to sketch a market process paradigm, relying heavily on the post-Keynesian paradigm.[1]

1. The short run unit variable cost is seen as constant over the relevant range and thus, the short run average cost curve of the firm is "L" shaped and not "U" shaped over the relevant range of output decisions. Firms with these cost attributes behave as though they had constant or declining unit costs.[2] Therefore the firm acts as though capacity would be adequate to accommodate more business. Historically, U.S. industry has operated at well below rated capacity most of the time. This suggests that the problem of business is a marketing problem of how to get rid of their output rather than an economizing problem of how to allocate scarce resources.[3]
2. Enterprise institutions, whether private, parastatal or statal, are usually price setters. Indeed, pricing as taught in marketing pays scant attention to the pure or even the workable competition models.[4] Therefore, it is posited in this model that the ratio of rents and profits, or residual incomes, relative to wages is set by seller action to sustain targeted return on capital employed, tempered by bilateral labor negotiations with organized labor groups.[5]
3. Enterprise is largely internally financed generating slightly more than one-half of industrial capital internally. In 1973-74 the Federal Reserve estimated that new issues accounted for less than five percent of capital investment.[6] This figure has not been over seven percent in several years in the U.S. The difference in lending terms and rates for large and small

enterprises suggests that the large firm has some advantages in loan capital markets where about two-fifths of industrially employed capital is borrowed. The pattern hardly provides a market test for financing the industrial enterprise system in the U.S.

4. Firms, or more precisely, marketing managers, operate to maintain their return on investment on pain of having the funds reallocated to some other "brand" or product in the firm or conglomerate.[7,8,9] Therefore, firms are not in the simple sense profit maximizing in their behavior but operate to balance three sometimes conflicting priorities. First, maintaining control over the capital available to them by sustaining satisfactory return on capital employed. Second, sustaining their market share as a means of assuring future capital control, and third, acting to minimize interference from government, labor or consumers.

5. Given the inflexibility of prices, it often appears necessary to alter the funds available to consumers by a variety of tax and credit schemes in the U.S. to attempt to sustain output and employment at acceptable levels. For example, housing interest rates are usually subsidized and durable purchasing interest rates are periodically reduced to stimulate demand. Lowered interest rates tend to increase prices of equities relative to debt. Equities, held largely by the upper income segments of society, act as a wealth pool or lottery and windfall profits are reaped by the wealthy when interest rates are dropped in efforts to sustain lower income purchasing rates of durables, as in the U.S. in 1975.[10] Thus, monetary stimulation of the

economy has a built in constraint on income redistribution effects. Inflation may be the most effective mechanism whereby the effects of low interest rates and heavy consumer debt offset income concentrative effects of monopoly profits generated by price setting firms.

The above description focuses on industrial society, the U.S. in particular. The paradigm suggests that the competitive tests seem weak for both pricing and for finance.

It is useful to describe the distinctions between the industrial society and the underdeveloped society. The underdeveloped socity, in contrast to the euphemistically titled "developing nations," is caught in a web of dependencies and lacks institutionalized knowledge to overcome low incomes even in some cases with abundant resources. The two sector developing society (see Kelley[11]) has an industrial segment that follows most of the rules of the industrial society and a traditional sector that has limited market interaction. The trend in most under-developed societies is for the expanding population in traditional sectors to gradually drift into urban slums and create a proletariat. Meanwhile, the upper income elite continues to consume imported luxuries so that the nation has a high "requirement" for foreign exchange and limited demand for internal production. Foreign exchange can usually be most easily earned by maintaining labor intensive plantations for export commodities[12] which delay the educational and industrializing changes needed for take off. Solutions to the two sector neo-colonial under-developed society problems seemingly lie in actions that will reduce the need for imports of consumption goods and expand the participation of the traditional sector people without forcing them to pass through the destructive proletariat phase following urban drift.

With this overly simplified description of market behavior by sellers and consumers, one can seek the kind of model that will describe market processes -- hopefully describing them reasonably accurately.

The search is for a model that describes market behavior of firms and consumers that does not depend on the simplistic, rational, price dependent paradigm of the neo-classical economic model. Working in Puerto Rico, the question was considered whether a society would be better off with higher food prices and high employment with traditional food marketing or with lower food prices and lower employment with modernized marketing (see Riley, Slater, et al.[13]). The tradeoff considered the impact of price reductions associated with modernization of food distribution and the associated employment reductions. With lower income consumers spending a greater share of income on food, modernization would redistribute income. Much of the work on this model and a more general model of market systems of Northeast Brazil (see Slater, Riley, et al.[14]) was aided by Herman Koenig's seminal work in the applications of control theory to social problems. The work of these two models of Puerto Rico and the Northeast of Brazil was the substance of doctoral dissertations of John Griggs and Thomas Webb of Michigan State.

The efforts to assess the impact of alternative strategies in the development of the marketing systems in Puerto Rico, the northeast of Brazil and Bolivia[15] involved the use of the logic of these models to assess trade-offs. Trade-offs were assessed between cost reductions for marketing services versus labor displacement and between the costs of enhancing the capitalization of agricultural marketing systems that serve the low income producers and consumers versus the reduction in funds available for enhancing exports to assure consumption and capital goods and services for the upper income sectors of society.

It should be noted that the critics of this earlier work focused on the feasibility of one of the tactics designed to foster lower prices for staple foods. It has been argued that the low income households did not initially take advantage of the supermarket and hence the slow diffusion of such innovations made them disfunctional. Bucklin at this conference argues that the low income households in Asia did not take advantage of the supermarkets set up to serve the "carriage trade."[16] In these cases the critics have focused on one of the tactics, retail supermarkets, to assess the marketing integration thesis. The question that should be considered is whether risks and uncertainties can be reduced to assure more efficient use of capital and lower transaction costs in developing societies by marketing integration tactics. It should be assessed as a system and not evaluated by a critical review of individual tactics perhaps poorly applied. If this criticism has served to take attention from "supermarkets" and focus concern on systematic market integration through risk reduction and capitalization of markets serving lower income segments of developing market systems, a service has been done. The effect may have been to enhance the control of resources for planning and development by export-oriented agricultural production technicians.[17]

Further work to develop simulation models of market processes theory was done in Kenya. Working with Geoffrey Walsham, now of Cambridge University, a simulation model of the Kenyan economy was developed. Data for the base period 1972-73 were gathered, and the policies of the 1974-78 Development Plan were used.[18,19] The sectors of the model are presented as a state variable chart in Appendix A.

The model was computerized and applied to a number of policy problems identified by senior staff of the Ministry of Finance and Planning as well as by Walsham and Slater in 1974 and 1975 and more recently by Shah of the University of Nairobi. A contract exists between the Government of Kenya and the University of Nairobi to maintain the program on both the University computer and on the computer of the Central Bureau of Statistics. Before describing the structure of the model or the statistical results of application, it is useful to outline a prototype application to the U.S. economy.

In mid-1974 work began to apply the same logic to a model of the U.S. economy. During 1975 the model was debugged and U.S. data for 1960 through 1970 were gathered. The base year data for 1960 and 1961 were put in the model and the policy data were derived from the U.S. experience from 1962 through 1970.

The structure of the model of Kenya and the prototype of the U.S. undertake to reflect the theory of market processes outlined above. Some of the key features of the model are:

1. The model is demand driven, that is to say, the income available to consumers from one period is the basis for consumer purchases in the next time period. Also, demand derives from the expenditure or "construction effects" of capital formation process as well as government demand for consumption.

2. Capital formation derives from industrial retained earnings, consumer savings and government investment as well as net foreign investment (unimportant in the U.S. until OPEC price strategy changes). The initial effect of capital is only a construction effect of installing the capital rather than the

expansion of output.[20] In this model the construction effect is the result of capital expenditures for services, building and construction and the object industry. After the construction effect, capital formation induces capacity changes and changes capital coefficients relative to other inputs, particularly labor.

3. Production is limited to that for which there is an effective demand at prices which are at the moment set exogenously to the model. The price level of each sector is externally set and for forecasts, price changes are estimated. Production is an input-output system with the output funneled through a sales sector, which is the sector of the economy that consumers buy from directly.
4. Consumption demand is disaggregated to allow for differing consumption propensities for differing income and demographic subsets of the population. Government consumption demand is treated as a policy input.
5. Consumer incomes derive from wages, rents and transfers. A critical step in the model is a reallocation of numbers of households to differing income classes as the income stream varies over time.

These broad features of the model are detailed in a flow chart of the computer applications of the model (see Appendix B).

The model reflects the paradigm identified earlier. Pricing is a result of policy by government and industry and not, as classical economic theory says, a product of haggling and bargaining by tiny sellers. Wage income is affected by the input-output demands for labor and the wage policies of government. Thus, the ratio of residuals or rents and profits to wages is set by factors other than free bargaining of completely mobile agents. Idle capacity seems to exist in the industrial system of Kenya as well as the U.S. For most industries most of the time sellers act as if they could take care of at least one more order. Hence, the short run average cost curve is declining or "flat."

The results of the model in application are at this time surprisingly good. While it is not a model that can be compared to growth models, there are some areas of overlap. The Growth Model of the Ministry of Finance and Planning designed by Powelson indicated a growth over the 1974-78 plan period of 7.6 percent. This model predicted at the same time a growth rate not to exceed 3.5 percent. By the end of 1975 the cumulative growth rate was 3.5 percent, according to the 1976 Economic Survey of Kenya. This model predicted rapid build-up of urban unemployment. In general, statistics bear out this result. Urban employment had increased each year until 1974; since that time a decline has, in fact, occurred.

The U.S. prototype model has been used to forecast the level of personal consumption in the U.S. from 1962 through 1970. In 1962 the error in the forecast was about seven percent; thereafter, the error in the forecast was less than two percent for each year through 1970. (See Appendix C.) The model was also applied to estimate the distribution of income. Forecasting from the 1960-61 base period, the income distribution in 1969 was estimated. The projection was accurate within 1.1 percent error in five lower income groups out of six. In the top group, incomes over $50,000, the U.S. government statistics reports that .7 percent of households were in that category. This model predicted 2.4 percent. Tax avoidance may explain some of the differences in this upper income group between government reports and our forecasts (see Appendix D).

The model has been applied by simulating alternative options to a number of policy issues at the request of the Government of Kenya, in particular by the Deputy Permanent Secretary for Treasury of the Ministry of Finance and Planning, Mr. Nicholas Nganga (now Permanent Secretary for the Ministry), to assess the consequences of a more labor intensive building and construction industry, particularly in rural areas, upon the rate of expansion of the urban unemployed who drift to the city as a result of lack of rural employment and opportunities for a fuller life in the rural areas.

Second, a simulation was made to assess the implications of several strategies to deal with the increase in imported chemical fertilizer prices in 1974 and 1975. A $10m subsidy scheme was adopted, consistent with the model projections. The Chief Economist of the Ministry of Finance and Planning, Mr. Masakhalia, has been provided with analysis of the consequences of disengaging from the fertilizer price subsidy at the programmed time of reducing the fertilizer subsidy. The planned reduction was carried out this year.

Studies have also been made of changing the investment strategies from modern commercial agriculture to traditional direct farm consumption agriculture and smallholder commercial marketing of their limited surplus. Perhaps not surprisingly, the model indicated the intuitively obvious -- the distribution of income would be enhanced by the support of traditional agriculture but not predicted was the simulation result that the growth rate of the economy would likely be increased over a five year period as a consequence of the strategy of enhancing traditional sector production. While a large system of about 1200 statements cannot be precisely interpreted, it appears that the lower income sectors have a larger demand for internally produced goods, thus a growth effect on the economy.

The important conclusion is that a theory of market processes consistent with the pragmatic behavior of marketers and consumers can be developed, computerized and data collected to enable the model to be tested by forecasting and utilized by simulation. The critical apertures to this exercise were:

1. The demand driver attribute of the simulation model as opposed to the production drive of the Harrod Domar growth models.
2. Recognition of the similarities of economic processes in industrial areas and of the underdeveloped areas of the world.
3. Application of input/output concepts to a more complex process that includes coefficient changes due to capital formation to make the system dynamic and a sales sector that reflects the flow of goods and services to consumers.
4. Use of household budget studies to provide a basis for both static and dynamic descriptions of consumer behavior over time.
5. Use of control theory concepts to facilitate development of a simulation of feedback sequentially linking the processes within one time period to dynamically affect subsequent time periods.

Much work remains to be done to make this very gross theory of market processes useful at the micro level. The first step involves sensitivity analysis to assess the requirements for accuracy in parameter estimates. There are about 600 parameters in the base year and about 90 for each policy year studied. This is the work of Laci Pook's DBA dissertation. A second step will be to disaggregate the operating sectors to allow more detailed and precise manipulation to reflect various micro policy options.

One of the apparent shortcomings in the model is that it is a flow of income and wealth, as stocks of income from prior periods are not represented. To refine the model and develop stocks as well as flows, improved measures of capital efficiency need to be developed. Another theoretical issue concerns the need to develop better indicators of future price level changes in productive sectors of the economy for products, wages, rents, interest rates and imports. There is also the need to better understand the changes in consumer purchase behavior with changes in levels of income due to upward and/or downward changes in incomes as well as changes in the relative price levels of broad categories of goods and services. Longitudinal household budget studies will be needed to assess this possible shortcoming in the model. Estimation of the traditionsl or direct consumption sources of income as well as public and private transfers and voluntary or involuntary transfers through criminal activity or services also may need more study.

The model describes the process of markets as distribution channels for goods and services linked to consumption behavior of disaggregated subsets of consumers with differing propensities. This is the basic framework from which a variety of macro marketing issues and perhaps some rather micro issues can be considered.

When more fully tested and validated by sensitivity tests, the model will be used to examine:

1. The consequences of resource constraints where scarce resources are allocated by price versus other rationing schemes.
2. The growth and capital formation consequences of income distribution reforms through tax as well as wage and rental income policies.

3. The linking of two or more national or regional models to assess the policy problems of terms of trade between regions.
4. Exploration of alternative performance of the economy when stimulated by fiscal means versus monetary means.

In conclusion, what has been offered here is a tentative theory of market processes. Shelby Hunt says, "The study of positive dimensions of marketing can be appropriately referred to as marketing science."[21] The model offered here is a framework to test a variety of strategies for marketing or demarketing. It is not sufficient for marketing to focus on transactions without analysis of the interactive consequences of transactions upon the socio-economic processes of the society.

FOOTNOTES

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[6]Board of Governors of the Federal Reserve System, Division of Research, Flow of Funds III/75, (Washington, D.C.: Government Printing Office, Nov. 10, 1975), p. 10.

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[12]Colin Leys, Underdevelopment in Kenya: The Political Economy of Neo-Colonialism (London: Heinemann, 1975).

[13]Harold Riley, Charles Slater, et al. Food Marketing in the Economic Development of Puerto Rico (East Lansing: Latin American Studies Center, 1970).

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[16] Louis P. Bucklin, "Intermediate Technologies for Improving Food Retailing Efficiency in Developing Asian Countries." Paper presented at Macro-Marketing Conference, Boulder, CO, Aug. 15-18, 1976.

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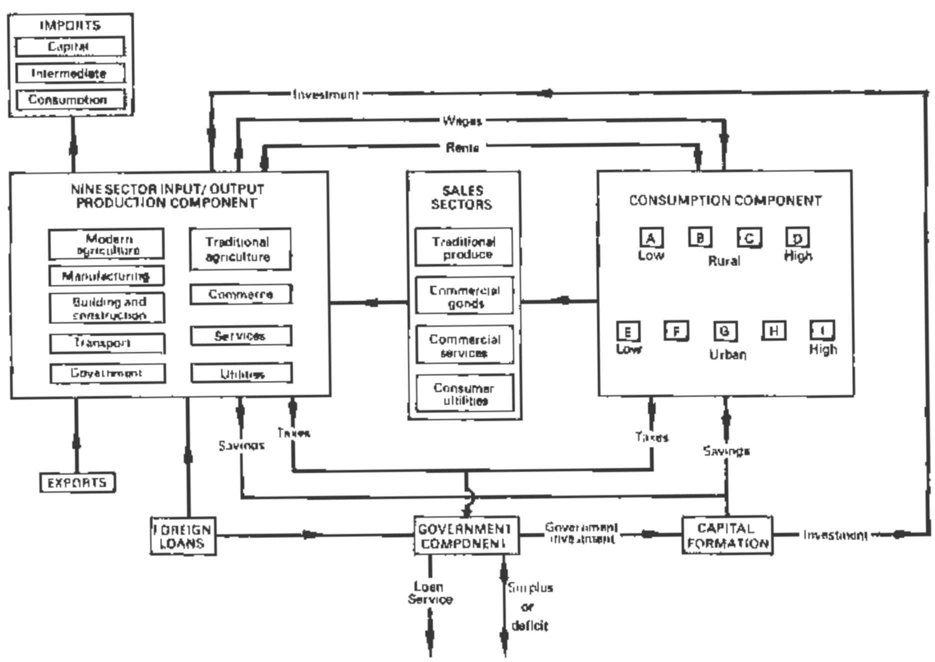
[19] Charles Slater and Geoffrey Walsham, "A Systems Simulation Model of the Kenyan Economy," The International Journal of Management Science, Vol. 3 (December 1975).

[20] R. Solow, "The Production Function and the Theory of Capital," Review of Economic Studies (1956), 23 (2), pp. 106-108.

[21] Shelby Hunt, "Nature and Scope of Marketing," Journal of Marketing, July 1976, p. 28.

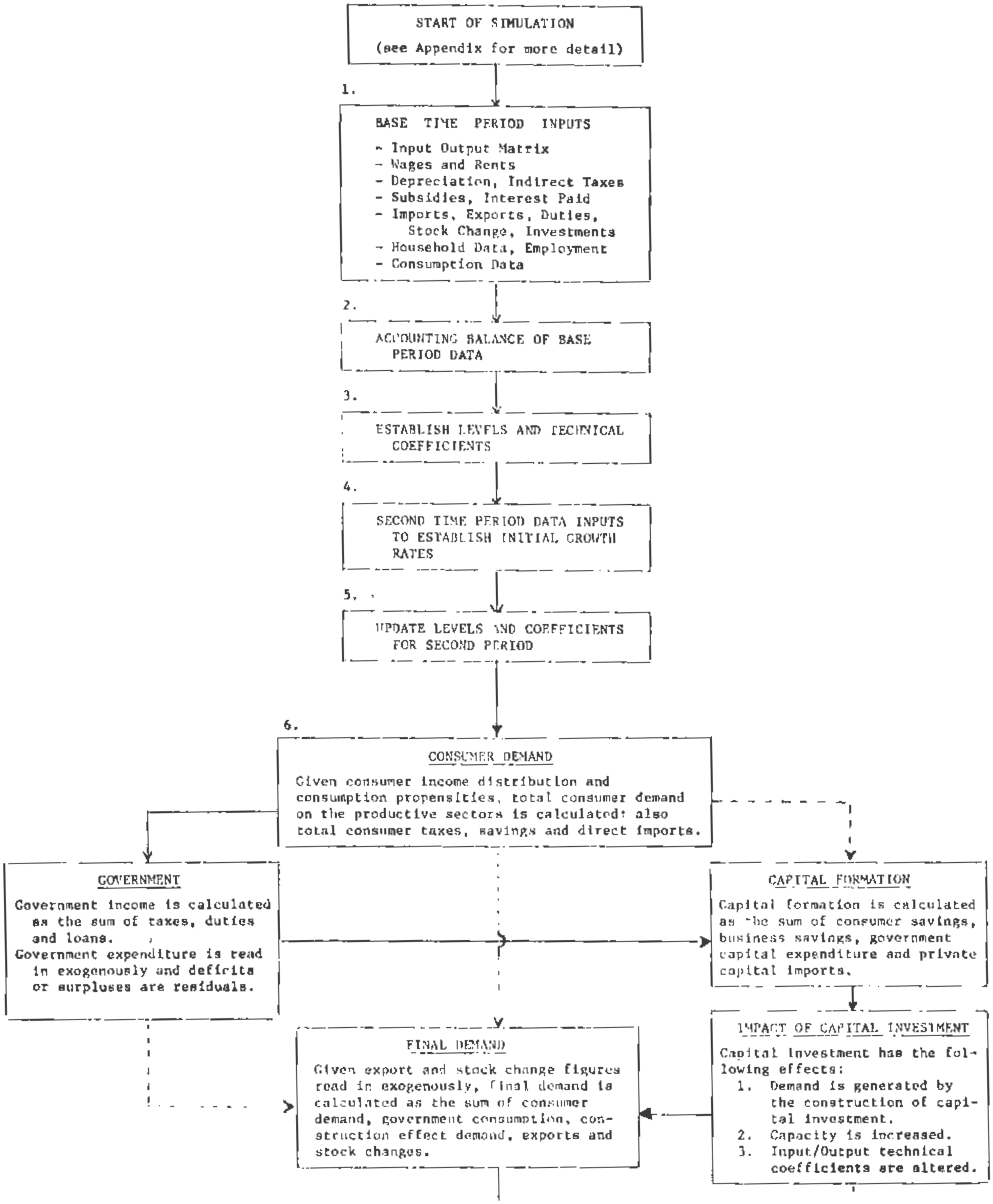
APPENDIX A

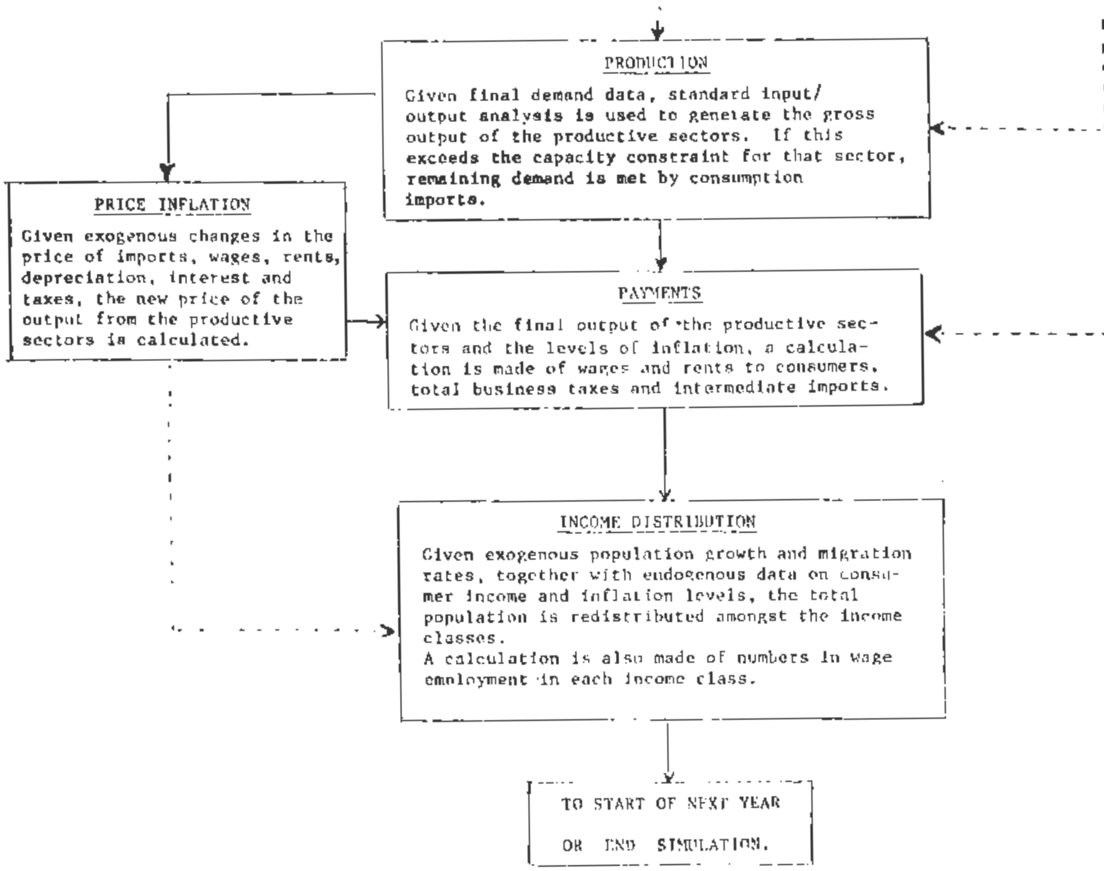
THE STATE-VARIABLE DESCRIPTION OF THE OVERALL MODEL



APPENDIX B

A SIMPLIFIED FLOW CHART OF THE MODEL





<u>The U.S. Model Computational Sequence, developed in cooperation with Laci Pook</u>

1. Base time period data inputs: establish initial levels for the different equations:

   Input/Output matrix: nine sector aggregated matrix based on <u>Survey of Current Business</u>, November 1969, pp. 31-35. Current aggregations include Traditional Agriculture, Modern Agriculture and Mining, Manufacturing, Building and Construction, Utilities, Commerce, Transportation, Services, and Government. The I/O array was deflated to the 1960 level.

   Wages: private wages and government wages paid by or through each industrial sector with nine income classes: four urban, four suburban, and one transitional class. <u>Statistical Abstracts</u>, T526, 1973.

Rents: paid by the nine sectors to the nine income classes. Statistical Abstracts, T650, T651, T392, 1973

Depreciation, indirect taxes, subsidies, interest paid, intermediate imports, capital imports, import duty, exports, stock change, investment, and capital formation. The above data are for each sector. Statistical Abstracts T524, T622, T516, T775, T517, T767, T766, 1973; Survey of Current Business, November 1969.

Conversion matrix converts the outputs of the nine sectors into the five productive sectors of traditional agriculture, utilities, commerce, service and government. Dollar value flows have been estimated.

Household members: by income class. K. Murphy, "Spending and Savings in Urban and Rural Areas," Monthly Labor Review, Vol. 88-10 (October 1965) pp. 1169-76.

Household income: by income class. Statistical Abstracts T526, 1973. RLS Report No. 238-16, T3.

Taxes paid: by income class. Statistical Abstracts, T526, T635, T622, 1973.

Savings: by income class. New York Times, December 29, 1975; Statistical Abstracts T526, T530, 1973. Murphy, Monthly Labor Review (October 1965) p. 1175.

Allocation of consumer savings by sector. Statistical Abstracts T526, 1973.

Direct consumption matrix: defines dollar value of consumption of all nine consumer classes from the five direct consumption sectors. USDA Consumer Expenditure Report No. 35, Survey of Current Business, July 1961, p. 10.

Direct consumer imports and duty on direct consumer imports: expenditures abroad. By income class. Statistical Abstract T843, 1973.

Capacity utilization. Business Week, Annual Survey, 1961, reported in the Economic Report of the President, 1975.

Base year employment matrix: employment by income class in each of nine sectors. Murphy, op. cit., Monthly Labor Review, Oct. 1965. Statistical Abstract T370, 1973.

2. An accounting balance of the base year data is achieved in terms of:

   (a) No. of households x income/household
   = wages + rents $\pm$ transfers + net interest paid
   = taxes + savings + consumption

   (b) Household consumption is derived from two sources with respect to direct consumption: (i) direct consumption matrix, (ii) conversion matrix.

(c) GNP = household consumption + government consumption + capital formation + net exports
= national income + indirect taxes + depreciation + subsidies
- government surplus.

(d) Input/Output matrix sum = 0

(e) Sum of consumer savings allocated by sectors = consumer savings by income class.

3. Calculation of "level" coefficients from base year data as proportions of the whole (gross output, capital formation, capacity utilization, total income, conversion matrix total value, consumer savings total).
The following technical coefficients, TC's, are proportions of gross output: intermediate imports, private and government wages, rents, I/O, depreciation, interest, indirect taxes.
Capital imports = \$capital imports/\$capital formation.
The following technical coefficients are proportions of total household income at each income level: personal, taxes, savings, direct import duty, consumption.
Conversion matrix coefficients are proportions of total consumption.
Consumer savings are allocated to sectors on a proportional basis.

4. Second time period data inputs: to establish initial rate parameters for the difference equations are read in.

5. As a result of second period rate inputs the following operations are performed:

(a) Nine sector growth rates are read in, and the new second year sector outputs are calculated.

(b) As a result of capital investment TC's are updated, imports and import duties are calculated.

(c) As a result of price changes the new output prices are calculated; new sector capacities are calculated; price changing forces are estimated.

(d) Due to new prices the commensurate household incomes required are calculated to maintain equivalent real incomes in each group.

(e) Based on (c) new wages, rents, etc. paid by the nine sectors, income payments are calculated. Based on these new payment levels, price changes and new rates are calculsted for the subsequent period (wages, rents, imports, depreciation, interest, taxes, etc.).

(f) Based on exogenous population increase and imigration, the population is redistributed among income classes using Slater's Income Distribution Algorithm: keep income constant in classes while numbers of classes change.

(g) Numbers in wage employment by income class were calculated (also the number "not" wage employed is calculated). The number wage employed is the matrix product of employment matrix and gross output.

This is the end of the model's reliance on first and second period data.

6. (a) The model, from the second period on, is demand driven. Demand on the four direct consumption sectors is calculated from consumer demand as a result of income changes. Taxes, savings and consumer imports are also calculated using the new income information and the TC's.

(b) Income for the government sector is calculated, based on taxes, duty and loans. Government policy on expenditures, subsidies and capital formation is exogenously determined.

(c) Capital formation as a sum of consumer savings, business savings, government capital expenditures and private capital imports is determined. Note that private and government investment by sector are policy variables.

(d) Construction effect of capital investment is estimated on the nine sectors: intermediate demands, capacity changes, technical coefficients,and exports are estimated. Final demand is calculated as a sum of consumer demand, construction effect, exports and stock changes.

(e) New gross output needed to satisfy demand is calculated and is compared to capacity. Growth rates are calculated by sector.

(f) At this point the model can return to step 5c for the start of the next time period or end the simulation run.

APPENDIX C

SOME PRELIMINARY RESULTS OF THE PROTOTYPE U.S. MODEL

Using the 1960 base and "forecasting" through 1971, the model projections have been checked against the recorded experience of the economy. One of the key projections for the model is total personal consumption expenditures, a major component of GNP. The model derives these consumption estimates through the production and allocation processes internal to the model and the only input of personal consumption is for the first two years, 1960 and 1961 in this case.

PERSONAL CONSUMPTION

(in billions of current dollars)

	U.S. Govt. Statistics	PEGS Forecast Results	% Error
1960	325[1]	325*	--
1961	335	335*	--
1962	355	376	5.6%
1963	373	372	0.0
1964	398	401	0.8
1965	433	422	2.5
1966	466[2]	456	2.1
1967	492	490	0.4
1968	536[3]	539	0.6
1969	579	563	2.8
1970	616	605	1.8

* Base year data input

[1] 1966 Statistical Abstract of the U.S., USDC, Table 451
[2] 1968 Statistical Abstract of the U.S., USDC, Table 454
[3] 1973 Statistical Abstract of the U.S., USDC, Table 522

APPENDIX D

AN ESTIMATE OF THE DISTRIBUTION OF INCOME IN THE U.S., FORECAST FROM A 1960-61 BASE TO 1969

SIMULATION RESULTS*		ACTUAL U.S. EXPERIENCE**	
Income Group (Mean)	Percent of Households	Income Group	Percent of Households
$ 2,400 & $ 2,700	14.6%	Under $3,000	14.9%
7,400 & 7,700	53 %	$3,000 to $12,000	54.1%
15,000 & 16,000	27 %	$12,000 to $25,000	26.7%
33,000	2.8%	$25,000 to $50,000	3.7%
279,000	2.4%	Over $50,000	0.7%

* Model projections

** Source: President's Commission on Population Growth and the American Future, G.P.O., 1970.

III

Marketing in a Growth-Constrained Society

The three papers concerned with marketing in a society confronting constraints in its growth provide an urgent demand for application of macro-marketing. The first of these by Enis and Kangun explores the implications of distribution systems confronted with zero growth. The second paper by Fiske identifies the urgent needs for marketing in a post-industrial environment where resource constraints will induce reductions in the short-run outlook of an intensively energy profligate society. The third by Ralph Day turns to the more immediate issue of improving the consumer's ability to provide feedback to direct the marketing performance of society through complaints reaching Federal Trade Commission researchers. Together they provide a longer run outlook for marketing and the very difficult problems of improving feedback from consumers to guide an economy when change must be recognized as an important and growing external constraint.

ZERO ECONOMIC GROWTH: A MARKETING PERSPECTIVE AND PUBLIC POLICY IMPLICATIONS

by

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> We are facing, within the next three decades, the disintegration of an unstable world of nation-states infected with growthmania. The game of unlimited growth is ending, like it or not. We are approaching the limits, and this will have profound consequences for the rest of our lives; some of them indeed have already begun to appear. This is what underlies the sudden, seemingly mysterious shortages and the widespread inflation that have plagued the world. In addition, changing physical conditions on the planet have exacerbated the economic problems we face. Yet most American citizens, and their leaders, have little understanding of the root causes of their escalating problems -- a major obstacle to solving them.
>
> Paul Ehrlich (2, p. 4)

As the quotation forcefully indicates, the steady-state economy is coming. This is, on balance, salubrious for mankind. As students of marketing, we are convinced that our discipline will not suffer in the transition from undifferentiated growth to steady state. On the contrary, marketing concepts and techniques can play an essential role in this transition.

THE MEANING OF MARKETING

The discipline of marketing studies exchange activities. It begins with the assumption that individuals or groups (including corporations and not-for-profit organizations) will trade, i.e., lease, barter, swap, purchase, etc., when both parties to the transaction expect a mutual net gain. Thus, the discipline is based on the assumptions of individual rationality and sovereignty. That is, individuals are assumed to be capable of making calculations about the efficacy of participating in a given transaction, and are free to participate or not as they choose.

The science of this discipline is complemented by the art or practice of marketing management. Marketing management is the performance of exchange activities in such a way as to achieve a given organization's objectives. Thus managers of marketing activities in organizations essentially perform four functions (3, pp. 46-47):

1. <u>Seeking</u> - the search for customers, i.e., those with the willingness and the ability (buying power) to participate in mutually advantageous exchange relationships.

2. <u>Matching</u> - the marshalling of organizational resources to meet the needs of chosen customer groups in such a way as to satisfy organizational objectives.

3. <u>Programming</u> - the conception, development, integration, and testing of the four elements of the marketing mix: product, promotion, distribution and pricing.

4. <u>Consummating</u> - the implementation and control of the marketing program; this includes delivery of a physical product, use rights, and information for its use, and the collection of payment, as well as the development of performance standards for the program, the evaluation of the program relative to the standards, and the appropriate action as required.

Marketing managers learned in the 1950s and 1960s to follow these four steps according to the philosophy of the <u>marketing concept</u>. This concept states that all organizational activity begins with the "seeking" of customers whose wants and desires can be successfully satisfied with the organization's products. This seemingly axiomatic statement implies a complete reversal of managerial thinking. Marketing pundit Theodore Levitt said it best (5);

> The difference between marketing and selling is more than semantic. Selling focuses on the needs of the seller, marketing on the needs of the buyer. Selling is preoccupied with the seller's need to convert his product into cash; marketing with the idea of satisfying the needs of the customer by means of the product and the whole cluster of things associated with creating, delivering, and finally consuming it...

This change in managerial thinking has been spectacularly successful for profit-seeking organizations since World War II. The post-war period has been an era of ever-expanding demand. As organizations become more and more proficient at precisely identifying customers' wants and desires, they turned out new products at an incredibly rapid rate. The Gross National Product grew exponentially. Marketing constituted a relative simple set of managerial tasks. The emphasis was upon seeking customers and programming marketing strategies to satisfy those customers' wants. There was little need to give attention to the function of matching. If the customer wanted it, engineers could design it, purchasing people could procure raw materials and components, manufacturing could build it, and the financial people could generate the necessary capital for operating expenses and investment in plant and equipment. Marketing was relatively easy!

In the 1970s, however, the very success of our economic growth -- due in large measure to effective marketing management -- led to serious and certainly more visible problems: depletion of resources, externalities such as pollution of the air and water, an emphasis upon materialistic values (more is better), and so on. There was clamor for reform: people did not want polluted water and air, concern over resource depletion began to mount, particularly as a result of the creation of OPEC (a cartel controlling oil supplies and prices) and the premises underlying materialistic values began to be questioned. The generic appelation for this change in social thinking is "Zero Economic Growth."

"ZERO ECONOMIC GROWTH"

Zero Economic Growth, or more precisely, the achievement of an equilibrium with respect to economic activity, recognizes the finite limitations of the planet. While people's wants may indeed be infinite, the means of satisfying these wants are not. <u>Limits to Growth</u>, <u>Mankind At The Turning Point</u>, and other studies, while somewhat lacking methodologically, have demonstrated conclusively that there is a point beyond which economic activity cannot be extended (8, 9). Viewed in this light, the single-minded desire to satisfy consumers' material wants ignores rather serious social consequences. The policy of pursuing undifferentiated economic growth is equivalent to a policy of maximizing resource depletion and pollution. For example, in the computation of GNP, medical bills for treatment of cigarette-induced cancer and pollution-induced emphysema are counted as additions to GNP. In a more realistic sense, however, such expenditures do not add to societal welfare. Thus, what our present economic accounting system enters as additions to economic wellbeing are, in fact, dimunitions of it. Part of our economic growth is really "swelling"; it gives the illusion of growth but creates substantial disamenities.

The fundamental objective of Zero Economic Growth is nothing less than a reversal of society's basic economic goal: undifferentiated growth. It entails a change in attitude toward economic activity from, in Kenneth Boulding's words, a <u>cowboy</u> orientation to a <u>spaceship</u> orientation (1). That is, rather than a policy of maximal use of society's resources to satisfy the ever-growing demand for material goods and services, society should attempt to minimize the resources required to maintain a given standard of living, and to promote growth in those areas requiring little or no resource use and generating little pollution, e.g., education, personal development and so forth.

Since marketing has been a major factor contributing to undifferentiated economic growth, proponents of ZEG inevitably (but we think, erroneously) conclude that no growth would have to imply no marketing. Marketing is blamed for such growth. Theobald, for example, notes (10, p. 21):

> For purposes of the general argument, "marketives" produce and sell "ecofacts" in order to obtain profits . . . . Any serious discussion of the implications of the marketives' drive for profit has been drowned in a flood of public relations releases which usually include a standard implication of their own -- that change is necessarily progress. Once we look behind this claim we find that the marketives' basic drive to achieve a profit appears to be increasingly injurious to the Western socioeconomic system and Western values.

But the sins of economic growth are not necessarily the transgressions of marketing *per se*. The academic discipline and business practice of marketing can be compatible with an overall societal goal of a steady state of economic activity.

ADAPTING MARKETING TO ZEG

Marketing can adapt to the imperatives of a steady state economy. Indeed, marketing can play a major role in that transition. One marketing practitioner puts it this way (6, pp. 259-260):

> Preparing the public for the changing facts of life is of course the major effort and requires every bit of media understanding and (marketing) cooperation. And it requires every bit of professional advertising and public relations talent and a government commitment to use that talent for an effort on a par with, or greater than, the preparation of society to the end of a wartime economy.

This would involve a reorientation of the thinking of the participants on both sides of the exchange transaction, consumers and marketing managers. On the buyer's side of the exchange transaction, there would be many opportunities for improved marketing management to deliver real benefits to buyers. These benefits fall into four categories: products for which continued growth would be beneficial, environmentally benign product substitutes, lifestyle changes, and replacement products. Table 1 presents examples.

In the first place, a societal goal of zero economic growth would be a net target, allowing for variations within the system. While growth in certain goods sectors might decline, there would still be significant opportunities for growth in other sectors, particularly services. For example, scientific research and education in all forms, not necessarily the four year college degree, but vocational training arts and crafts, and so on would continue to grow. Similarly, medical and dental care, particularly in the area of mental health, would continue to be a growth area. Also, services for the care of children and the aged, including the terminally ill, should continue to expand and improve. And repair services will increasingly replace the purchase of new products. For example, General Motors has a new and powerful competitor: Sears -- which is now the world's largest repairer of automobiles. Another growth area will be in the application of marketing expertise to various causes: political candidates, charity drives, not-for-profit organizations such as universities and hospitals, consumerism, social responsibility, minority rights, improving the plights of the disadvantaged consumer, and so forth.

A second area of opportunity for marketing in a steady state economy would be the substitution of environmentally benign products for those which are harmful to the environment. Examples abound: mass transit for the private automobile, cluster homes for the individual family dwelling, sailboats for motorboats, biological insect control rather than chemical pesticides, grass-fed beef for grain-using feedlots, insulating materials for buildings rather than higher fuel costs, and solar energy rather than fossil fuel power generation.

The third area of marketing opportunities is in the area of lifestyle changes. The primary culprit here is "product obsolescence." Consumers in America, Western Europe and Japan have been taught that it is socially correct to buy a new automobile or wardrobe after two or three years, not because the old ones are physically useless, but because they are out of style. Similarly, many products in today's society are overpackaged which waste resources and can add substantially to product costs. Consumers could be taught to repair and recycle products and to demand less costly packaging. Similarly, successful campaigns could be directed to the marketing of such ideas as eating less beef, smoking less, exercising more, contemplating rather than consuming, making use of library services rather than traveling, and so on. Perhaps the most startling lifestyle change is the serious suggestion that dead bodies not be buried in expensive land, but be kept functioning with life support to provide blood, spare organs and protein for the living. The concept, called "body harvesting," is ecologically sound but will require considerable marketing effort if it is to be accepted by most people.

Finally, a steady-state economy would be dynamic rather than static. Maintenance of the required stocks of products would require substantial manufacturing effort. And we learned conclusively -- Emerson, Galbraith, et al., notwithstanding -- that products must be marketed. The mousetrap will sit on the shelf and rot unless it is marketed and that marketing effort is well-managed.

But the nature of the marketing management task will be more complex. On the supply side, economic growth is to marketing management what speed is to an athlete: it permits correction of mistakes. The <u>management</u> of demand must replace the stimulation of demand. Marketers can no longer define their functions solely in terms of seeking and programming. Matching and consummating will receive more attention because of organizational and societal constraints upon the marketing concept. The organization cannot deliver products to satisfy its customers if it cannot get the necessary raw materials or working capital, or if society prohibits, controls, or taxes the product too heavily. Consequently, marketing management will be more difficult if and when society begins to change its orientation from economic growth to first differentiated growth and later to a steady state economy. In the future, marketing management must be more sophisticated to cope with the problems of more intense competition, the need for closer coordination with other organizational activities, more societal and environmental constraints, and so forth.

In short, the marketing concept of seeking customers' desires and matching organizational resources to the development of programs for consummating exchanges for those products indicates that there are many opportunities for profit-seekers to introduce new products or processes to improve revenues and/or reduce costs. In addition, marketing concepts and techniques can be useful to managers of not-for-profit organizations. Just as marketers adapted from selling to marketing in the 1950s and 1960s, they can adapt from marketing which focuses mainly on the gratification of the short-run desires of individual consumers to the satisfaction of consumer desires consistent with long-run social welfare demands.

But marketing practice is governed to a large (and growing) extent by public policy. The transition from undifferentiated economic growth to a steady state of economic equilibrium will require a fundamental readjustment of public policy formulation and implementation. Unfortunately, public policy has not changed. It is, in marketing parlance, being sold, not marketed.

ADVOCACY: THE SELLING OF PUBLIC POLICY

Marketing, like other types of social activities, is practiced within the confines of public policy. In industrial societies, public policy is developed in an inconsistent and fragmented fashion. John Gardner (4) says

> Systemic inertia is characteristic of every human institution, but over-whelmingly true of this nation as a whole. Our system of checks and balances dilutes the thrust of positive action. The competition of interests inherent in our pluralism acts as a brake on concerted action. The system grinds to a halt between crises . . . .

For example, regulations governing the manufacture and sale of automobiles are promulgated by (1) the Federal Energy Administration (which is primarily concerned with gasoline mileage), (2) the Department of Transportation, which focuses its attentions upon improving automobile safety, and (3) the Environmental Protection Agency which is concerned with minimizing air and noise pollution from automobiles. Each of these objectives is, by itself, commendable, but they are mutually contradictory. Automobile safety can be improved by increasing the weight of automobiles, which detracts from gasoline mileage performance. Similarly, an environmental protection device, such as the catalytic converter, adds weight, reduces gas mileage, and causes the emission of other pollutants like sulfur dioxide into the atmosphere. There is no overall objective of optimizing automobile design.

Similar examples include subsidies to tobacco growers by the U.S. government. The Department of Agriculture continues to articulate policies to improve and increase tobacco production in the face of numerous warnings by the U.S. Surgeon General of the relationship between cigarette smoking and lung cancer. And, despite the energy crisis, there is no national energy policy. Table 2 provides other examples.

The crux of the problem is that public policy is developed primarily through the advocacy process. As learned in law schools, advocacy is the vigorous and uncompromising "selling" of a particular point of view. The lawyer on the other side is expected to provide favorable information and to point out weaknesses in the argument of the advocate. And there is a judge who decides, largely on the basis of legal precedents, which advocate is correct. Surely the most prominent example of advocacy in public policy today is Ralph Nader. Nader presses his contentions skillfully and vigorously, and gives no quarter. When asked once if perhaps his opponents may have had a point, Nader's response was "You do not give a burglar credit for not burglarizing, do you?" In brief, proponents of views which differ from those of the advocate are enemies to be defeated by whatever means available. The advocate has little concern for the rightness of the position in a moral sense, the economic costs and benefits of the proposal, or the importance of the issue advocated relative to others.

Of course, advocacy is not all bad. But it is at best inefficient. It was known, for example, when the 1970 automobile emission standards were promogated that these standards would raise the cost of automobiles sold in 1975. It was expected, however, that continued economic growth would provide a cushion insulating both manufacturers and public policymakers from complaints by customers. Affluence was expected to provide customer acceptance of more expensive automobiles which polluted the atmosphere less. This expectation was wrong. Automobile sales in 1974 and 1975 were considerably below projections, as consumers strapped by the recession refused to pay higher prices for environmentally superior products.

In short, it is the advocacy approach to public policy -- more than the marketing approach to the manufacture and distribution of economic goods and services -- that poses a threat to society's ability to move from undifferentiated economic growth to a steady state system. Marketing can adapt, if public policy does.

A MARKETING ORIENTATION FOR PUBLIC POLICY

The thesis of this paper is that a reorientation of the thinking of public policy makers could produce comparable successes for the macro economy as the change from a sales to a marketing orientation did for individual organizations a decade or two ago. The following paragraphs examine the development of public policy within the marketing management framework of seeking, matching, programming, and consummating.

Seeking involves the identification of target market segments (groups of consumers) whose satisfaction might result in the attainment of organizational objectives, and the estimation of the potential of each segment for contribution to those objectives. For example, it would be useful to correlate the benefits of various public policies suggested by such advocates as voters, consumers, unions, employees, scientists, and social critics. And then determine which groups other than advocates would be affected if such policies were implemented, and in what ways. Also, how many would be affected, and what the impacts would be. For example, how many consumers use data resulting from "truth-in-packaging" legislation? How many people would be helped, and in what ways, if all fabrics were made flame resistant? In the authors' opinion, for example, such areas as space research and heart transplant research do provide significant benefits, but for relatively few people. Our point is that marketing expertise in consumer research can be transferred to the public policy arena. Potential "consumers" of various public policies can be identified in terms of who they are, how many exist, what benefits they would receive, etc.

The matching step involves analysis of the organization's costs of providing the products for which demand was identified in the seeking stage. Obviously, there are tradeoffs. Just as no organization can satisfy all consumers, no public policy or program can satisfy all citizens. Matching generally focuses on objectives, resources, and functions.

In the area of objectives there is no hierarchy of public policy objectives analogous to the profit maximization hierarchy in organizations or the hierarchy or individual needs, e.g., that suggested by Maslow (17), which many marketing scholars accept as the basis for individual decision making. Just as sales quotas are set so that revenues can be projected in order to attain profit objectives, an individual first seeks to satisfy his physiological needs and then goes on through safety and security, belongingness and love, to self-actualization. Ideally, public policy also should be arrayed in hierarchical fashion. But this does not happen. While there are certain goals of public policy toward economic activity, e.g., progress, full employment of resources, price stability, equity in resource distribution, efficiency in resource utilization, and maximization of individual sovereignty, there is no commonly-agreed-upon ranking for these (and other) criteria. Thus, when laws are written or court cases adjudicated, the resulting mandate to the proper government agency is usually vague, and there are no standards to control the performance of policy as it is implemented.

As a result, it is often difficult to determine what a particular policy will cost. It is hard to estimate the types and amounts of resources that will be required. Arguments are often presented in emotional tones, stressing nonquantifiable factors, and minimizing potential costs, particularly if benefits will appear only in the long run. A favorite procedure of the U.S. Corps of Engineers, for example, is to use a very low discount rate when computing the benefits to be derived from its various projects. This means that benefit streams extend far into the future, so that they tend to offset the immediate costs of the project. If a more realistic discount rate was used, e.g., the current rates used by corporate financial officers, many projects would be deemed economically infeasible. In summary, what is needed is a holistic view of the matching process, one which would determine systematically the costs and benefits of various public alternatives.

The programming function involves the conception, development, integration and testing of various public policies. In this sense, public policies can be considered "products" to be marketed with respect to the product variable. Thus, optimization criteria, not political compromise, should govern design specifications. For example, the principle of optimal configuration developed for space vehicles could be adapted to automobile design. That is, it is theoretically possible to develop an optimal design for automobiles, balancing safety, pollution control, gas mileage, and other factors.

The area of promotion, from a marketing perspective, should be of greater concern to public policy makers. The issue is truth. The Federal Trade Commission has said that product claims should be such as not to deceive even the most guillible of most potential consumers. And yet politicians claim that campaign rhetoric is an accepted democratic tradition. "Everybody knows that campaign promises are not factual." A suit has been filed against Massachusetts governor Michael Dukakis, who raised taxes after promising not to do so during his gubernatorial campaign. The disposition of this case will prove interesting. Another example is the practice of the Illinois state lottery of claiming that its grand prize is one million dollars. In fact, the prize is distributed in payments of $50,000 per year over a twenty year period. The present value of the award, after allowing for inflation, is less than half of the state's claim.

Yet another example of possible deception in the advertising of government programs is the new television spot for the social security administration's service of mailing social security checks directly to a savings and loan association. The ad shows a kindly grandfather enjoying his leisure fishing. He comments, "Boy, I sure like that high interest rate." Even the maximum allowable interest rates paid by savings and loan associations hardly merit the adjective "high."

The distribution variable in public policy decision-making is also quite instructive. The villain here is the venerable "pork barrel." Programs, military contracts, office construction, and so forth, are distributed not on the basis of need or equity, but according to the political clout of various Congressmen. It is perhaps naive to suggest that wholesale changes could immediately be made in this practice, but it definitely is not a "customer" orientation to the distribution of federal programs.

Similarly, managers of public policy need to give more attention to the pricing variable. Quite often, the price to be paid for a new program is ignored or understated. Generally speaking, to finance federal programs, either taxes must be appropriated or the government must borrow in the money market. These costs should be explicitly identified. An even more serious problem is to somehow identify the non-monetary costs of various federal programs. For example, when the retail price of gasoline was controlled in spring 1973, many Congressmen boasted that they were saving consumers money. While this may be true, consumers paid significant non-monetary costs: they waited in long lines, they could not buy gasoline at night or on Sunday, the amount of gasoline available was limited, and so on. And the price controls reduced incentives for producers to expand supply facilities. Finally, perhaps the most insidious cost of all was inflation.

The consummating step involves first the implementation, and then the control, of marketing programs. Implementation focuses on the completion of the exchange in terms of four flows: delivering the physical product to the consumer, returning payment for the product to the organization, delivering use rights (not necessarily legal title) to the consumer, and facilitating flows of information in both directions (promotion of product benefits to the consumer and information about consumer wants and desires back to the organization). In terms of public policy, there is much that can be done to expedite delivery of welfare checks, to remain open for business at more convenient hours, and to more fully (and truthfully) communicate product benefits (and costs) to potential consumers.

The control stage involves adjusting actual performance in light of program objectives. As stressed above, this requires that operational performance standards for government programs be explicitly stated. Congress presently neither sets operational performance standards for its programs nor provides assessment capabilities for evaluating programs. Consequently, it functions as a rubber stamp, renewing programs on the basis of measures which may have no bearing to real program benefits. For example, the Department of Agriculture has spent millions of dollars disseminating nutritional information to dieticians and school cafeteria managers. No one has ever attempted to determine whether this program is having any impact at all. It is sold and resolt to Congress on the basis of undemonstrated need. If criteria were specified and capabilities provided, then actual results could be measured against the standards, and corrective action taken as necessary. Corrective action generally involves making adjustments in the new program (new product features, price decreases, new advertising campaign, etc.), but may also involve the adjustment of objectives to more realistically reflect the impact of environmental factors.

CONCLUSION: A SMALL, BUT NECESSARY, STEP TOWARD RATIONAL PUBLIC POLICY

It would be naive to suggest that advocacy will be supplanted by a more rational approach to public policy. In business, the marketing concept did not replace salesmanship. But it broadened and improved selling by better consumer information, tighter organizational integration, and more careful control of production and marketing costs. So we do not expect that advocacy will be eliminated. But it could be improved with better information on social needs, costs and benefits.

Several limiting factors should be realized. First, it is true that better information does not necessarily lead to better decisions. Second, information assembly and analysis is not without costs. There are the out-of-pocket expenses of the information, the present value of benefits is delayed while the data are analyzed, there is risk of adverse environmental change (e.g., inflation, increased costs), and the data, however scientifically collected and no matter how thoroughly analyzed, may be in error. That is, there is the risk of inaction (what statisticians call Type II error) as well as the risk of Type I error. For example, in the 1950s a law was passed against the use of subliminal advertising. Subsequent research showed that subliminal advertising would never be commercially feasible, but the risk was though to justify passing legislation before the research was conducted. A similar controversy today concerns the effect of fluorocarbons on the ozone in the upper atmosphere. While it has not been proved that fluorocarbons do in fact cause the ozone layer to deteriorate, the consequences to mankind if such a theory was shown to be correct are so great that perhaps public policy should prevent the use of fluorocarbons pending a more complete scientific investigation.

Third, government action may not be the best approach to some problems. For example, it may be that the market mechanism can do a better job than government regulations in allocating supplies of such products as airline and truck services, crop acreage, rent controls and import quotas. Alternatively, a direct subsidy to affected parties may be better than "interfering" with the market mechanism. Finally, even with the best of planning and decision making, some problems cannot be anticipated. For example, the OPEC cartel, crop failures in Russia, and the dissappearance of the anchovy population off Peru in 1972 are unique if not random events which probably cannot be incorporated into public policy statements.

In summary, the object of a market-oriented approach to public policy development is to improve government decision making <u>incrementally</u>. The purpose is to shift the focus from fragmented, power-block thinking to more systemic, interdisciplinary thinking to cope with the future. Marketing concepts and practices can play an important role here, especially if Zero Economic Growth is to become the official policy of society.

TABLE 1

EXAMPLES OF MARKETING ADAPTATIONS TO ZEG

1. Continued Growth	2. Environmentally Benign Substitutes	3. Life Style Changes	4. Replacement Products
Research medical, energy, basic science, etc.	Mass Transit for Private Auto	Consume Less: style changes (autos, clothes), diet (beef, sweets), packaging	Food
Health Care	Sailboats for Motorboats	Repair, Re-use, Recycle rather than replace	Capital Equipment
Education	Derrigibles for Trucks	Substitute Activity for Consumption: library rather than travel, visit friends, converse, and contemplate rather than watch TV, etc.	Buildings
Repair Services	Cluster Homes for Single Family Dwellings	Body Harvesting rather than Burial	Trucks, Railroads, etc.
Cause Marketing politics, charity, civil rights, anti-smoking, anti-littering, etc.	Biological rather than Chemical Pest Control		
Efficiency Improvements checkless society, energy-saving appliances, etc.	Building Insulation for Fuel		
	Solar, Tidal and Geothermal rather than Fossil Energy Sources		

TABLE 2

EXAMPLES OF OVERLAPPING INTERESTS IN PUBLIC POLICY DEVELOPMENT

ISSUE	AGENCY JURISDICTION/INVOLVEMENT
1) Automobile Performance	EPA, DOT, FEA
2) Energy Policy/Development	FEA, FPC, FTC, Dept. of Justice, Dept. of Interior, Dept. of State, AEC, ICC, EPA
3) Truth-In-Lending	Nine separate agencies including the Dept. of Treasury, and the Federal Reserve Bank
4) Flammable Fabrics	Dept. of Commerce, FTC, FDA
5) Fair Packaging & Labeling	Dept. of Commerce, FTC, FDA
6) Consumer Protection	FTC, CPSC, FDA, Dept. of Commerce, Dept. of Justice, Dept. of HEW
7) Product Safety	CPSC, FDA, AEC, DOT, Dept. of Commerce
8) Air & Water Quality	Multiple agencies
9) Nutritional Information Disclosure	FDA, FTC, Dept. of Agriculture, HEW
10) Comparative Performance	FTC, FDA, Dept. of Agriculture

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MARKETING IN POST-INDUSTRIAL RECYCLE SOCIETIES

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Most marketers are aware of the sensitivity of their decisions to environmental forces, but they rarely analyze long run environmental influences governing the effectiveness of these decisions. Since planning commitments are subject to macroenvironmental influences, marketing decision making can be more effective and more efficient if environmental considerations are explicitly introduced into the decision making process.

CHARACTERISTICS OF POST-INDUSTRIAL RECYCLE SOCIETIES

Not even the most ardent students of the future can forecast its relevant dimensions for decision makers with great precision. Trend is certainly not destiny in any long run sense, but causal influences on many future developments are historically rooted. The outer borders or limits of feasibility of decisions with historical antecedents can be understood and estimated with reasonable accuracy, and since the only alternative to planning for futurity of present decisions is not to plan, prudence dictates that assessment of foreseeable risks is distinctly preferable to planning on the premise of "no change" and no forecast.

In this paper two discernible and basic decision determinants that are reasonably sure to operate in the future are examined: first, post-industrial society based on the idea that in a learning society, the centralization and codification of theoretical knowledge will accelerate what is technologically possible given the needed resources; and second, the concept of a recycle society based on a conservationist-environmentalist ethic which is already changing product designs, motivating the organization of undreamed of, not-for-profit marketing channels and imposing steadily higher barriers to life styles of affluence. Although these ideas are basically the product of the current intellectual scene, the articulation of the post-industrial society is the work of Daniel Bell[1] and the term "recycle society" is associated with Glenn T. Seaborg's paper which appeared in the Futurist in June 1974.[2] Articulation of the rationale and the necessary transformations in life style associated with a recycle society is persuasively presented by E. F. Schumacher in Small is Beautiful.[3] Together the ideas presented by these writers embrace concepts advanced by a much larger group, but are compressed here for easy identification and comprehension. These views will be examined briefly in order to relate them to visions of the future of marketing.

Bell specifies five dimensions of "post-industrial society":[4]

1. Economic sector: change from a good-producing to a service economy;

2. Occupational distribution: rise to preeminence of professional and technical workers;

3. Axial principle: the centrality of theoretical knowledge as the source of innovation and of policy formulation for the society;

4. Future orientation: the control of technology and technological assessment; and

5. Decision making: the creation of a new intellectual technology based on models, decision theory, simulation and systems analysis.

Services in Bell's terms mean health, education, research and government services which he regards as decisive in a "post-industrial" society. Hence, they are not to be confused with the employment of vast numbers of personal servants. Since Bell perceives occupation as the most important determinant of class and stratification in society, he takes the growth in numbers of professional, technical, and white collar workers as indicative of the future.

Thirdly, Bell believes that fundamental change in a society can be understood in terms of an "axial principle:" post-industrial society is organized around the centrality and codification of knowledge in the same way that industrial society is still organized around economic growth based on state or private control over investment decisions, and pre-industrial societies are organized around the limitations of land and resources. In the post-industrial society knowledge directs innovation and change, therefore providing the power of social control. This in turn gives rise to new social relationships and social structures whih have to be managed politically. Thus, Bell's view of the future maintains that the organization of decisions and the direction of change will be through the centrality of theoretical knowledge: "the primacy of theory over empiricism and the codification of knowledge into abstract systems of symbols that...can be used to illustrate many different and varied areas of experience."[5]

Fourth, Bell believes that post-industrial societies may be able to maintain "growth" through "conscious," planned advance together with technological assessment of second, third and higher order side effects. Present experience already indicates that this expectation may be doomed to disappointment because of the "very human failing of greed which has resulted in lackluster performance of the Office of Technology Assessment in its early years of operation."[6] Despite such failures and near failures, the future of social accounting, environmental impact statements and technology assessment appears secure. The alternative is to proceed without knowledge of performance. Bell perceives that knowledge must be organized around theory which must have for its validation the empirical content of information. Studies of externalities which deal with basic dimensions of future societies can lead to planned management of societal consequences of marketing and any economic activity that concerns the public.

Finally, and related to technology assessment is "the identification and implementation of strategies for rational choice of invention in games against nature and games between persons via the management of large scale systems...an intellectual technology is the substitution of algorithms (problem solving rules) for intuitive judgments."[7] The market which makes many dispersed and invisible decisions in the industrial society loses its power in the post-industrial society as political decisions based on impersonal rules make evident to all, the beneficiaries and the losers in large systems of action. In post-industrial societies countervailing power constituencies struggle to represent their interest by seeking to impose penalties on their opponents and by rewarding their allies.

Bell's vision of the future is not universally shared, and in one sense, Schumacher's view of a counterculture found an earlier expression in the U.S. in 1970 when Charles A. Reich captured public interest with The Greening of America.[8] By describing the then rebellious college campus yough-culture as the portent of a higher level of consciousness that would lead to change in the bureaucratic institutions that operated by mechanical rules, Reich presented what was essentially a hope for more responsive social organization as his forecast for the future. Schumacher's Small is Beautiful presents exploratory calculations that provide a strong rationale for a Recycle Society. In a small society Reich's ideas about consciousness III could be instrumental in changing consumption and life styles intended to minimize the environmental impact of people as consumers while increasing their satisfaction.[9] Schumacher, in a more practical vein than Reich, seeks to provide a blueprint for achieving such a society by describing intermediate technologies which could be introduced in developing nations to forestall further planetary pollution and resource depletion.

Consistent with Schumacher's views but not embracing his value orientation is Glenn Seaborg's paper "The Recycle Society of Tomorrow." Lying between Bell and Schumacher's vision of the future, Seaborg described the 1990s as "a period characterized mainly by the need to stimulate maximum creativity in a tightly controlled social and physical environment."[10] The transition envisioned by Seaborg includes:

> --Movement toward a highly disciplined society with behavior modified by self and society
>
> --Recycle society "using all resources with maximum efficiency and effectiveness and a minimum of environmental impact"
>
> --Mixed energy economy depending on a combination of several sources and highly conservation conscious
>
> --Progress toward international community spearheaded by economics of multinational industry, new international trade agreements that improve the distribution of resources, and a high degree of scientific and technical cooperation.[11]

Seaborg acknowledges the influence of Bell's axial principle of centrality of knowledge via "scientific and technical cooperation" but adds the environmental dimension via the recycle society. The concept of a recycle society fails to emerge in Bell's vision of the future beyond the idea of continuous substitution of scarce resources based on their relative costs.[12] In describing behavior modified by self and society, Seaborg approaches but does not duplicate Schumacher's emphasis on metaphysical, naturalistic, and holistic values as the basis for personal behavior in a small society.

Indeed it is Schumacher's concern with "economics as if people mattered" that leads him beyond the conventional scientific orientation of Bell and Seaborg and into the rediscovered values of Buddist Economics concerned with the human ends for which people seek to economize. Both Schumacher and Seaborg argue for drastic changes in life style, but they begin from different planning postulates. Nevertheless, both argue for "ephemeralization," to borrow Buckminster Fuller's term for doing more with less. This brings both to advocate a Recycle Society in which small consumption units serve as the starting point for reverse marketing channels:

> In the recycle society, all products and parts will be labeled in such a way that their use, origin and material content can be readily identified, and all will have a regulated trade-in value...when a consumer wishes to replace an item or trade-up for something better or different, he can return the older item for the standard trade-in price. All stores will have to accept these trade-ins. They will thus become collection centers as well as selling outlets in the recycle society.[13]

Seaborg also describes criteria for marketing performance in product design, promotion, pricing, and physical distribution. Schumacher extends these ideas by talking about their social consequences, although he deplores the pseudo-scientific quantification of incalculable benefits and costs.

Threads of similar ideas can be found in a wide range of contemporary writings from the Club of Rome-sponsored <u>Limits to Growth</u>[14] to Herman Kahn's various books[15] on the long run future. Most writers about the future recognize to some degree the problems of population, pollution, resource depletion and growing capacity to design technological solutions to immediate problems. Also gaining recognition are the needs for closer environmental surveillance and assessment of consequences through technology assessment, social indicators and environmental impact statements. Since the views of Bell, Seaborg and Schumacher seem to capture the essence of current thinking without excessive analytical complication, they are postulated here as a parsimonious statement of the main contours of the environment through which future marketing decisions will be influenced.

Based on this portrayal of major influences on the futurity of marketing decisions, the following section models their interaction with marketing and sanction systems. The next section traces shifts in the societal tasks of marketing, and the paper then concludes with an examination of marketing strategies in post-industrial recycle societies.

MODELING THE DETERMINANTS OF MARKETING DECISIONS CONCERNING THE FUTURE

Even if the future is what people will it to be, human will is subject to limitations on individual and collective freedom of decision. Furthermore, the incentives to behavior change must be strong enough to overcome the inertia of an existing order, and when presented with these incentives, marketing decision makers must implement their decisions as well as make them. The wisdom of their choices may not become known until the consequences appear over time, and these consequences must be identified and measured before modifications of initial decisions can be made. Thus the determinants of change in macro-marketing systems are numerous and interactive. Figure 1 identifies some of these major determinants and their relationship but does not quantify the magnitude of their interactions.

To change the behavior of marketing decision makers engaged in societally dysfunctional behavior, someone has to modify the schedule of reward and penalty incentives sufficiently to motivate changes both in marketing decisions and in their implementation. Internally, marketing organizations have long used accounting ratios to measure direct economic benefits and costs that yield rewards to the individual decision maker and to the decision maker's organization. However, the advent of societal performance requirements is so new that there is little experience upon which to base judgments concerning the responsiveness of marketing executives to these measures. That decision makers do respond to societally imposed sanctions, there is little doubt, but the magnitudes of rewards or penalties needed to induce desired

ENVIRONMENTAL CONSTRAINTS: Limits on Freedom of Decision

Ecological:	pollution and resource depletion
Economic:	cost of substitute materials, diminishing returns, market response
Technological:	technological feasibility vs. social externalities
Social:	human value orientations in folkways and mores
Political/ Government:	incipient laws and regulations

SANCTIONS: Reward and Penalty Incentives

Ecological:	habitability and life-support of "eco-system"
Economic:	market penetration, market share, direct cost and profit, social benefit/social cost, social cost/effectiveness
Sociotechnical:	counterintuitive consequences
Political/ Government:	laws, licenses, administrative rulings, court decisions

MARKETING DECISIONS

Public Sector Decisions	Private Sector Decisions	Household Sector Decisions
Subsidy, price-supports	Profit seeking and non-profit marketing decisions	Marketing decisions
Price regulation	Demand detection, demand stimulation, demand supply	Consumption life-styles
Operating permits	Product or service design	Budget allocation
Research and development	Pricing	Conservation/waste
Grants, etc.	Promotion	Recycling
	Physical distribution	Saving and spending

Measurement of Societal Performance of Marketing

Environmental impact statements
Economic productivity ratios of trade, transportation and communication industries
Technology assessment and engineering efficiency ratios
Quality of life - social indicators

Figure 1. Determinants of Change in Macro-marketing Systems

changes are largely unknown as recent public, private, and household sector responses to the energy crisis have so sadly demonstrated.

A very large class of problems must be studied in connection with the futurity of marketing decisions. These include the impact of social performance measures of choices as well as the strength of reward and penalty incentives to change. Additional elements of the systems will probably be detected in future studies provided that people have the incentives to undertake them. The complex web of feedbacks cannot be displayed in so simple a diagram as Figure 1, but these along with relative reaction times for responding to information they provide must be determined to manage such systems.

SANCTIONED SHIFTS IN SOCIETAL MARKETING TASKS

Shifts in societal marketing tasks are logical consequences of the characteristics of post-industrial recycle societies. Thus, societal tasks of marketing are being modified as follows:

1. Ephemeralization. The shift in employment to service occupations implies a concommitant shift toward more marketing of services and less of tangible goods.

2. Resource conservation and recycling. The emerging need to recycle and conserve resources implies a shift to consumer life-styles that will conserve rather than discard non-renewable resources and promote a more harmonious balance between human life support systems and their supply base.

3. Consumer democracy. Changing value systems favoring naturalism and holism and away from economic materialism presages a marketing technology compatible with and instrumental in promoting consumer democracy.

4. Planned technology transfer. Increasing emphasis on the axial principle of a learning society implies that the introduction of innovation and transfer of technology by marketing activity will be planned and begin to conform to the ecological imperatives imposed by environmental constraints and changing value systems.

In sum, these shifts are internally consistent with holistic and naturalistic values which have greater long run functional value in assuring survival of the human population than does economic materialism with its emphasis on short run direct benefits and disregard of side effects or "social externalities."

For example, the shift in service occupations as defined by Bell presages the emergence of "social marketing" of services. This movement is well under way and promises to substitute benefits of use for benefits of ownership, thus "ephemeralizing" goods. As operationalized by Kotler, the term "social marketing" designates "the design, implementation and control of programs seeking to increase the acceptability of a social idea or practice to target groups."[16] Although initially Kotler and Levy conceived of social marketing as nonbusiness marketing of "organizations, persons, and ideas," their emphasis was on managerial activity.[17] It is more than happenstance that their pathbreaking article "Broadening the Concept of Marketing" appeared at the dawn of the post-industrial society. Due to growth in the demand for services, output and employment in service industries have been expanding more rapidly than in durable and nondurable goods industries for some time and this growth in the demand for services is at the expense of tangible goods industries. As Hunt points out, there is a body of knowledge extant that people in the service industries could use to market their services.[18] However, as happens commonly in the history of invention, people in service industries may well have to rediscover for themselves the relevant knowledge that marketers could furnish now. Perhaps innovation theory will provide a short cut for this relearning process, but societal demand almost assures that marketing of services will expand greatly in the future.

Marketers themselves have recognized the power of marketing to change consumption life styles as evidenced by Lazer's paper in the same issue of the Journal of Marketing as Kotler and Levy's paper on "Broadening the Concept of Marketing." Lazer says,

> "Our society faces the task of making consumers accept comfortably the fact that a life style of relative leisure and luxury...is actually one of the major accomplishments of our age..."[19]

Schumacher views these materialistic drives as the source of the dysfunctional "alienation, frustration, insecurity" that "leads to a loss of perspective of the wholeness of life and ultimately to societal failure."[20] Perhaps of equal importance is the fact that the two billion people in lesser developed countries could not live at the same level of consumption as people in the U.S. without producing instant "ecocide" for all of humanity because of pollution levels and resource depletion. Thus, while a change in the acceptance of life styles is probably imminent, the societal task of marketing is not to encourage more profligate consumption but to promote greater satisfaction based on consumption of fewer resources.

One path toward this "ephemeralization" of goods and services is consumer democracy -- the participation by consumers in decisions on design, pricing and other product characteristics as well as in service-after-sale programs. Marketing research customarily seeks to find potential markets, the buying motives of consumers populating these markets, and the media by which they may be sent persuasive messages and other information related to their wants as seen from the perspective of the profit-oriented seller. By viewing the same problem from the consumers' standpoint, substantial increases in marketing effectiveness may be possible. While the U.S.A. may lag behind Scandanavia and Germany in introducing consumer participation in the marketing process, techniques for its institution are highly developed and available. Consumer democracy could reduce the need for government regulation on the one hand while increasing the effectiveness of materials administration on the other. There is a good chance that consumer democracy will emerge in some form in industrial democracies in the years ahead.

Planned technology transfer is fourth among the sanctioned changes in societal tasks of marketing. For many centuries western societies accepted the idea that if an invention was technologically feasible, it should be undertaken. This is known as the "technological imperative." Now it is frightfully clear that this decision rule should be constrained by the requirement that social benefits exceed their social costs. Lamentably, there is no precise way to quantify the ratio of benefit to cost. Therefore, much speculation and guess has been quantified but not verified. Even without quantification, judgments by environmentalist-conservationist criteria yield unequivocal decisions for or against some proposed course of action.

For example, nuclear power, so beguiling when viewed from purely economic criteria of direct benefit, becomes the fifth horseman of the apocalypse when viewed from the standpoint of safety impacts of nuclear wastes over their 25,000 year pollution potential. Under the prevailing technological imperative there is no reason to avoid nuclear power, but under the environmental imperative there could be no justification for adopting this technology.

As planned technology transfer favors more intermediate and benign technologies and as changing life style criteria raise questions about the unlimited consumption, individual marketing decision makers may well begin to make responsible marketing judgments from a societal standpoint.

In addition to emerging post-industrial societal tasks of marketing, all societies require performance of tasks that marketing people have undertaken for longer than recorded history. Marketing is the basic supply provisioning technology in any society practicing division of labor beyond that found in subsistence cultures. As a provisioning technology, marketing has made possible the delivery of levels of living not otherwise attainable, promoted economic development, accelerated technology transfer and above all enabled the growth of cities in which arts and sciences can be developed in "learning societies." These social goals and tasks of marketing are discussed in introductory marketing texts and need to be referred to but briefly here.[21]

For example, until consumer democracy makes an appearance, consumer sovereignty - the responsiveness of the market to the wants of consumers - is the principle defense of individually weak buyers matched against individually strong and relatively large sellers. Consumers' needs for food, shelter, clothing, rest, education and medical care are met largely through private markets in industrial democracies, although in socialist countries these may be supplied as public services. Largely because the consumer has been ineffectual, political sanction power has been used by governments to redress the imbalance between buyer and seller in market transactions.

Competitive markets are presumed to mobilize and allocate resources according to the relatively impersonal pull of competing demands. In consequence, some nations face private affluence and public poverty while others have attained public affluence at the expense of private poverty and limited access to presumably-free public resources.

Marketing is also expected to provide employment and income, particularly for marginal people too unprepared for professional or technical careers, or too limited in capacity to do more than wait on customers. Some of the most highly paid and creative workers in advertising, selling and public relations occupations are included in marketing, but the more numerous gas station attendants and checkout cashiers and people in distributive activity are among the lowest paid income recipients. Whatever their individual rewards, people employed collectively in marketing pursuits must be motivated to produce the services that societies want and motivated not to produce services that societies do not want. These motivators or sanctions are the subject in the next section.

SANCTION SYSTEMS

This section examines economic, legal and social sanctions that influence marketing decision makers. Business people, for example, have little incentive to discourage sales and consumption, to practice frugality and responsibility in the use of free resources, or to eschew rewards for marketing success. Markets reward people who provide what other people want, regardless of the side effects of production and sales of such items. However, economic incentives can be used by organizations representing the public interest just as effectively as they operate in private competition markets. For example, subsidies and grants for undertaking research and development of recycling technologies are made regularly by the National Science Foundation to business firms operating for profit. Tax relief may be granted to householders for installing heat conserving insulation, or alternatively, public utility commissions now use utility rate increases to curb demand for energy in excess of the ability of electric and gas producers to supply. Economic sanctions are among the most effective instruments for generating social change because they can be applied in relatively closely controlled amounts. However effective, economic sanctions alone are often insufficient to bring about behavior required to meet changing societal needs. Hence, other sanctions including legal and social are called into play, sometimes in a coordinated planned change, but more often in response to perceived need.

Legal sanctions operate to protect the environment and the consumer and to aid business. The National Environmental Policy Act, the Clean Air Act, the Water Pollution Control Act, solid waste legislation, parkland and public land resource utilization and other legislative enactments have attempted to specify penalties for producers of pollution and to offer economic rewards for pollution abatement. Similar legislative sanctions to protect consumers, workers or domestic industry have been enacted. However, the power of the law is sometimes restrined by such side effects on enforcement as costs or unwanted consequences.

For example, pollution control equipment and the demand for large quantities of electricity required to operate pollution controls have limited the ability of utilities to abate thermal pollution and to increase the supply of power simultaneously. Nevertheless, legal sanctions can operate effectively to channel feasible marketing action as illustrated by the speed with which unsafe products can be withdrawn from the market under provisions of the Consumer Product Safety Act. Sanctions that aid the business community are not intended to prevent unwanted social costs, although as in the case of protective tariffs they may curb consumption of products that pollute, deplete resources or in some way injure consumers and export unemployment to competing countries.

In back of economic and legal sanctions stands the force of social sanctions that operate through "public opinion." "Public opinion" is often the verbal expression of social custom, mores or accepted conventions concerning appropriate behavior. When aroused, as it seldom is, the weight of public opinion can force a change in legal or economic sanctions. Much environmental legislation, volunteer recycling, consumer protection legislation and specific control on marketing practice haa been influenced by this imprecise and ephemeral source of power.

Finally, in the long run and beyond the control of any society, are the forces of nature that are immune from the pressures of politics, public opinion or economics. When the pressure of a population on its resource base grows too great for the resource base to support, there is a "population crash." The fear of such a crash has motivated the zero economic growth movement and the zero population growth movement. For example, the famine and mass starvation experienced by people in the Subsaharan desert is perhaps a portent of more widespread famines elsewhere in the world if the technology of population limitation and food production fail to bring these variables into more manageable long-run relationships. Although beyond direct human intervention, forces of nature exercise their own sanction system on marketing behavior and cannot be ignored.

The major changes now taking place in sanction systems will probably continue to operate even more effectively in the future because most nations are developing effectiveness-index measurements. Along each of the dimensions just outlined, economic sanctions, political sanctions and public opinion or "mores," social benefits, and social costs will be measured for use in the design of sanctions to encourage socially desired marketing behavior and discourage socially undesirable behavior. These sanctions are discussed further in the next section of this paper. It is probable that if economic, political and social power shift further away from business to professional elites in the knowledge industry, to government leaders and to social activist groups, economic power will weaken relative to political power and public opinion as motivators of change in marketing organization. Thus, it is important for marketing decision makers to assess trends in the redistribution of power as determinants of change in their operating environment.

MARKETING STRATEGIES IN A POST-INDUSTRIAL RECYCLE SOCIETY

Everything discussed above has been aimed at improving the usefulness of strategic and tactical marketing decisions. First it was demonstrated that forces governing the kind of future facing western societies will impact on the societal tasks required of marketing in the future. Second, four shifts in traditional societal marketing tasks were related to the emerging characteristics of post-industrial recycle societies. Third, the sanction systems required to motivate the performance of new as well as traditional societal tasks of marketing were identified.

If the post-industrial recycle society described here does emerge, societal marketing strategies will become an inescapable concomitant of the practice of traditional supply-support or demand detection and demand stimulation activity. Marketing strategy will undergo a segmentation parallel to the segmentation of markets that have evolved in high level mass-consumption societies. Whereas only a managerial orientation concerned the theory and practice of marketing as late as the 1960s, social marketing is now gaining recognition, at least within the marketing discipline, if not without. If it becomes possible to transfer relevant marketing technologies to people in community and public service agencies in the nonprofit sector as western society moves into its post-industrial recycling stage, social marketing strategies will evolve further along still unforseeable but unique lines as required by the demands for particular kinds of services. However, still unrecognizable as a separate entity, despite Lazer's 1969 identification, is "societal marketing."

Societal marketing can be distinguished from managerial marketing or social marketing by its focus on "social externalities," the social benefits and costs that result as "side effects" from either managerial or social marketing. Social activists, special interest lobbyists, the Federal Trade Commission and the U.S. Department of Agriculture, the Environmental Protection Agency and the major federal and local political parties in every state have been engaging in societal marketing strategies for years, but up until the present, societal marketing activities have been largely uncoordinated and are usually undertaken to prevent undesirable marketing behavior rather than to advance societal benefits.

It is, of course, possible to promote an improvement in the "quality of life," a healthy environment or employment for people as indirect "spillovers" as every porkbarrel military appropriation demonstrates,[22] but it is also possible to develop a coherent national strategy for promoting and distributing such benefits or consciously minimizing "spillover" social costs.

For example, loss of nonrenewable resources is a matter of national concern, military strategy, and obligation to unborn generations. Thus, marketing programs that direct consumption toward minimal rather than maximal acquisition of goods and services is preferable in the long run, but these programs encounter resistance from business and labor groups in the short run. Marketing strategies designed to detect wants of consistuencies that will be forced to bear the "unwanted spillovers" of lost sales, profits and jobs can be used to determine social policies that are acceptable to these publics.

It is often argued that if marketing becomes everything, it ceases to be uniquely marketing. However, there is a clear line of demarcation between marketing, politics and law as institutional technologies for getting things done. To be marketing in the operating technology sense an activity must contribute to one or more of the following: a) to the detection of unexpressed or unfilled effective demands - demands that someone is willing to spend time, money or effort to fill; b) to the stimulation of these demands via advertising, selling or coordinated promotion; and/or c) to supplying these demands in the logistic sense of delivering supplies to the people who desire them in the quantities and at the time they are desired. To be social marketing, the activity also has to deal with marketing of services, people or ideas. To be societal marketing, it has to deal with planned modification of social externalities. In the present state of imperfect information about the decades ahead it is not possible to state with any accuracy the relevant tactics for managerial, social or societal marketing. However, it is possible to relate emerging characteristics of future industrial societies to the functional social sanctions and to relate these in turn to the implications for changes in marketing strategies. For the sake of brevity, only the basic characteristics of post-industrial recycle society are traced in Table I below. It would, of course, be feasible to articulate these dimensions to the limit of forseeability, but since this approaches the unknowable, it would add little of value to the skill of decision makers trying to cope with tomorrow's uncertainties in making today's decisions.

Table I follows the chain of causality displayed in Figure I. Future variables including the transformation to a recycle society and a post-industrial world encourage changes in social sanctions. These changes alter the desirability or feasibility of marketing strategies. If Table I were fully articulated, strategic marketing implications could be subclassified

Table I. Strategic Marketing Implications of Changes in Recycling Post-Industrial Society

Future Variables	Functional Social Sanctions	Implications for Changes in Marketing Strategies
I. Changes induced by values of a Recycle Society (Schumacher-Seaborg)	Environmental protection legislation	Demand for promotion of conservationist life style owing to decrease in feasibility of introducing environmentally damaging products and processes - increase in demands for "benign" or intermediate technology products and processes
Naturalism - humans are a part of nature, not engaged in a struggle to master it as believed by industrial man Holism - all components of biosystems are interdependent parts which may not be abused without damaging the system of which they are part	Conservationist-environmentalist ethic expressed as selective patronage in intermediate and final goods markets; as advocacy in political campaigns; as nonviolent direct action in demonstrations, "sit-ins," protest marches; etc. "Public opinion" as expressed in voluntary unpaid recycling activity, voting behavior, etc.	Ephemeralization of products to do more with less, e.g., innovative technology transfers of new products and processes as follows: Agriculture - no-till farming City planning - integrate work and home locations in "new towns" and housing and industrial parks Communication - substitute low environmental impact electronic communications for high environmental impact movement of people and goods Manufacturing - build, recycle and reuse characteristics into parts, components and packages Marketing - build quasi-voluntary reverse marketing channels for public and private sector resource recovery by recycling and reuse
Need to preserve habitability and life support capacity of planet earth as a biological production system: "ecological imperative"	Legal requirements, taxes and license fees for pollution, social activist lawsuits, stockholder activist intervention and sense of responsibility among members of engineering and other technocratic elites	Expansion of demand for capital intensive pollution control and recycling equipment to maintain "ecolibrium" Development of market segmentation strategies using biologically replaceable materials in place of nonrenewable resources

Table I. Strategic Marketing Implications of Changes in Recycling Post-Industrial Society (continued)

Action Precipitating Future Variables	Functional Social Sanctions	Implications for Changes in Marketing Strategies
2. Changes induced by emergence of Post-Industrial Society Economic sector emphasis on service and occupational redistribution	Shift in priorities from market demand for acquisition of goods to enjoyment of utilities leads to shifting sales and profit opportunity in private markets. Shift from private to public sector market demands for public goods requiring large capital investment	Increase in demand for satisfaction from receipt of services provided by public goods and service failities, education, recreation, health care, financial services and diminution of ownership or purchase of private goods
Axial principle learning society	Power of knowledge to increase productivity in existing applications and to achieve entirely new goals such as longer life, improved health, higher income, greater institutional responsiveness to demands, etc.	Change in response to advertising and selling appeals as consumers learn to gain satisfactions while minimizing consumption according to conservationist ethic
Future orientation and decision making	Economic and legal rewards based on social performance and assessment control data such as: Social indicators Technology assessment Environmental Impact Statement	Reduction in risks of marketing campaigns designed to supply new wants without production of counter-intuitive and unwanted side effects

by managerial, social and societal marketing categories. As time clarifies the exact nature of the societies of the future, this analysis will become more rewarding. However, since it is not clear as to what the characteristics of the future will be, this exercise would be premature now.

Table I can also be extended for purposes of environmental surveillance by examining the rewards and penalty sanctions associated with the four new societal marketing tasks now emerging: the shift to the marketing of services instead of the marketing of more goods; the emphasis on conservation and "reverse marketing"; the changing power of consumers as the movement toward consumer democracy accelerates; and the impact of changing value systems on the kinds of socially acceptable technologies. Since these will affect both the supply and demand sides of the market, the related social benefits and cost spillovers would have to be anticipated or identified for each category of product or service under consideration.

While much remains uncertain, it is already evident that the society of the future will be forced to adapt to the impact of increasing knowledge in a world of diminishing resources and rising populations. Human values will motivate the search for more humane technologies including marketing as if people really mattered.

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THE MACRO-MESSAGE OF CONSUMERISM: LISTEN BETTER!

by

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Introduction

By almost any standard one might apply, the overall quality of goods and services available today is higher than ever before. Although it is somewhat more difficult to demonstrate, it also seems clear that the marketing system has achieved higher levels of efficiency than ever before in delivering a vast assortment of goods and services to the consuming public. Logically, it follows that consumer satisfaction should also be at an all time high. But if it is, how can one explain the fact that publicly expressed consumer discontent and consumer militancy are at an all time high? While many factors undoubtedly have contributed to this apparent paradox, the overall "macro-message of consumerism" seems to be that the other major parties in the market place (business, government, and consumer organizations) have not been listening and making an effort to learn what consumers really are concerned about. As a result of the failure to effectively communicate with concerned consumers, business has been quite ineffective in its response to consumerism. For the same reason, government consumer protection agencies and consumer organizations appear to have compounded the problem. They have made sweeping diagnoses from isolated symptoms, stressed the failures of the marketing system rather than its strengths and potentials, and have stressed adversary relationships instead of trying to increase communication and cooperation in the market-place.

An effort will be made to document the major factors which have led to the present situation and offer suggestions for programs to counter the trend toward dangerous levels of antagonism on the part of consumers toward the marketing system. To provide a focus for the discussion, the process of evaluation through which the consumer arrives at feelings of satisfaction or dissatisfaction will first be outlined.

The Consumer's Evaluation Process

The most widely used conceptual framework for thinking about the consumer's evaluation process centers on the confirmation or disconfirmation of expectations. The level of satisfaction or dissatisfaction felt by the consumer after a consumption experience depends on the extent to which prior expectations of performance are confirmed or disconfirmed. Product performance meeting or exceeding prior expectations causes feelings of satisfaction while performances falling short of expectations lead to feelings of dissatisfaction. The strength of these feelings depends on the magnitude of the difference between expectations and performance. Several alternative psychological theories have been advanced in recent years suggesting that consumers may either magnify or diminish the importance of the differences between expectations and performance.[1] For present purposes, it will be assumed only that, in general, consumers experience satisfaction when performance meets or exceeds expectations and dissatisfaction when performance falls short of expectations.

The Structure of Expectations

In the confirmation/disconfirmation-of-expectations framework, specific product attributes and other factors are involved in the formation of expectations. Expectations can be broken down into three categories:

(1) expectations about the performance of the product or service (the anticipated benefits of the product or service itself; (2) expectations about the costs and efforts expended prior to obtaining the direct benefits of the product or service (the anticipated total costs); and (3) expectations of the social benefits or costs which will accrue to the individual as a consequence of the impact of the purchase on significant others.[2]

Attributes of the Product. In general, expectations about the nature and performance of the product will be based on previous experiences with a particular item or similar items. A part of this learning experience will usually be the recognition of the salient attributes of the item, some assessment of the importance of the attributes, and the development of expectations about them. The highly experienced user of the product or service will typically be aware of a number of alternative types or brands and will have specific expectations about the attributes and overall performance of those brands, depending on the extent and recency of his experience.

The new or inexperienced user will have relatively weak expectations of the attributes and performance of a product or service. He will tend to rely on advertising, sales presentations, and the advice of others more than the experienced consumer and his expectations are likely to be more incomplete and less stable than those of the experienced user. The inexperienced consumer will be more likely to have unsatisfactory experiences since his unfamiliarity with types or brands of a product might lead to inappropriate choices.

In addition to the experience factor, various personality and situational factors may affect both the consumer's expectations of product performance and how he reacts to their confirmation or disconfirmation in the consumption experience. The consumer's expectations with respect to product features and performance are usually, but not always, a key factor in determining whether or not a consumption experience is judged to be satisfactory or unsatisfactory.

Expected Costs. The expected monetary costs can have an important effect on the post purchase evaluation as well as on choice behavior. The relationship between the expected price and the actual price paid for an item can have a rather complex effect on the consumer's evaluative reaction. Price is sometimes interpreted as an index of quality so that a high price tends to create high expectations for performance and a low price tends to lead to low expectations of performance. When finding a price that differs sharply from expectations, the highly experienced consumer might interpret a higher than expected price as an overcharge and a lower price as a bargain. On the other hand, the less experienced consumer may take price as a measure of quality and adjust expectations of the performance of the product or service in response to the actual price. Price may also serve as an index of the importance of a purchase to a consumer so that evaluative reactions to relatively expensive items can be expected to be more critical than when the item is inexpensive and thus does not constitute a substantial part of the consumer's budget. The expected cost of an item may also influence prepurchase information seeking and shopping behavior and thus affect the nature and extent of expectations.

Consumers may incur costs other than the expenditure for the item itself when they purchase and consume products and services. The most obvious of these is the time and expense involved in making a trip to a shopping center and the time and effort spent in seeking out stores and shopping. Some consumers may spend a considerable amount of time and effort in gathering and evaluating information before making a purchase. Such activities tend to increase the perceived importance of the purchase and would seem likely to amplify the consumer's feelings about either a positive or negative experience after a purachse has been made.[3] Another kind of cost which may affect the consumer's expectations for a product is the "opportunity cost" of giving up the purchase of other things which could have been purchased instead.

Indirect Benefits and Costs. For many products there may be benefits or costs of purchase and consumption that are quite independent of the attributes of the product or service itself. These are the psychological benefits or costs to the actual purchaser which are derived from the effect of the purchase on other people. These derived benefits or subjective costs are especially important for status products such as high fashion clothing or gourmet foods and wines. The extent to which one's expectations about the reactions of others to a purchase are actually confirmed or disconfirmed may have a more important bearing on his satisfaction or dissatisfaction than his own evaluation of the product's performance. The desire for the approval of family and friends is not limited to the purchasers of status products. A wide range of products that are jointly consumed with others or are publicly consumed may have sufficient social significance that the purchaser will form expectations about the reactions of others whose approval is important to him.

The division of the aspects of purchase and use into the product itself, the costs involved in acquiring the product, and the social effects of the product may seem somewhat arbitrary. In fact, one could argue that costs and indirect benefits can all be considered attributes of the product in a broad sense. However, there are some good reasons for treating these aspects separately. For example, the degree of control the marketer may exercise over them varies. The physical or functional attributes of the product are established by the manufacturer and consumer expectations about them can be manipulated to some extent by him. The costs to the consumer are less directly under the manufacturer's control and may depend to a considerable extent upon local market conditions and the individual's shopping behavior. The social factors are even more individual and personal and less controllable by the manufacturer or middleman. Treating these aspects separately leads to a richer conceptualization of the consumer's evaluation process.

Circumstances Leading to Evaluation

In the simplest purchase and use situation, a product is purchased independently of other items, consumption begins immediately and is completed in a short time, and only the consumer's personal direct needs are considered. In such a case, an evaluation of the consumption experience could be expected to focus on the functional attributes of the product, and yield an immediate assessment of the consumer's feelings of satisfaction or dissatisfaction with the product. This is basically the scenario which has been reflected in most of the experimental studies of consumer satisfaction/dissarisfaction in the marketing and consumer behavior literature.[4] While this simple situation is useful as a frame of reference for the present discussion, it is hardly typical of the real world process of consumer evaluation of consumption experiences. There are a vareity of conditions and circumstances which can make the purchase/use situation more complex and the assumption that an evaluative reaction takes place after every consumption experience is questionable. These complicating factors have been discussed elsewhere.[5]

Possible Causes of Consumer Unrest

A number of possible explanations have been offered for the increased levels of consumer complaining activity and other manifestations of consumer unrest. No exhaustive examination of competing explanations is feasible here; however, four different interpretations will be briefly considered to provide the basis for discussion. These are: (1) The problem is the result of an acceleration of consumer expectations which has outstripped the ability of the economic system to perform; (2) It is an unavoidable consequence of a rapidly growing, high technology, consumption centered economy; (3) It is merely one of the more visible aspects of a general growth of political activism and criticism of the established order of society; and (4) It is the result of the profit-seeking excesses of businessmen who have become less and less sensitive to the needs and values of consumers.

Unrealistic Expectations?

An explanation of the increase in consumer dissatisfaction within the confirmation/disconfirmation of expectations framework has been offered by Ray Stokes.[6] The view of the consumerist, according to Stokes, is that consumer expectations are unchanging and that an increase in dissatisfaction implies that the quality of products and services is declining. On the other hand, Stokes says that marketers feel that consumer expectations have not remained constant but have been raised to such unreasonable levels that dissatisfaction occurs in spite of a steady upward trend in the overall quality of the goods and services offered to consumers. In other words, consumers see a negative gap between the quality they expect and that they get when they purchase and consume products and services, while marketers see a positive gap with expectations rising faster than performance levels which are themselves rising.

There are no objective measures available to decide whether or not the average quality of all goods and services is increasing and each individual must decide this for himself. My own experiences suggest that, on the average, the quality of goods and services is better now than it was a few years ago and the quality of the retail stores where I shop has been improving. However, the individual consumer reacts to his own beliefs, not "objective truth." Stokes suggests that marketers themselves are at least partially to blame for the unrealistically high expectations of consumers by suggesting "that miracles of the space age will continue at an accelerated pace" and by constant use of the media to confirm "rising expectations by advertising a flow of new products which are claimed to be superior to the previous model."[7] If, as experimental research has suggested, substantial differences in perceived performance relative to expected performance tend to be magnified in the mind of the consumer, the marketer further compounds his problem when he builds highly unrealistic expectations.[8]

Consequence of Growth?

The notion that a combination of rapid population growth, increasing per capita consumption, and increasing diversity and complexity of products will predictably lead to dramatic increases in dissatisfaction and complaining activities has strong logical appeal. Even with a simple technology and low per capita consumption, there is bound to be some dissatisfaction and complaining activity in any population of consumers. If the population increases and other things remain the same, one would expect a roughly proportional increase in dissatisfaction and complaining activities. That is, if other things remain the same and population increases by 20 percent, one would expect dissatisfaction to increase by 20 percent. If the population remains constant and the amount of consumption activity increases, one would again expect a roughly proportional increase in dissatisfaction and complaining behavior as each consumer's involvement with more goods and services provides more opportunities for the disconfirmation of expectations. In a similar manner, a general increase in the complexity and sophistication of the products available in an economy can be expected to lead to new sources of dissatisfaction as the incidence of inappropriate purchase decisions and inappropriate use of new high technology products increases. For purposes of illustration, let's assume that the population size has increased by 20 percent, the per capita consumption of goods and services has increased by 20 percent, and the complexity of the assortment of goods and services available in the economy has increased by 20 percent. The expected increase in dissatisfaction and complaining behavior would be 20 percent, right? Wrong! The combined effect of the simultaneous 20 percent increases in the three variables would lead to an expected increase of 72.8 percent in dissatisfaction and complaining behavior.

Over the past twenty years, both the population and the per capita consumption expenditures in the United States have increased by more than 20 percent. It is difficult to estimate a percentage increase for the past twenty years in the variety, complexity, and sophistication of the assortment of goods and services offered in the United States, but a number as small as 20 percent seems extremely conservative. This suggests that even if there has been no change at all in the way people react to their experiences with products and services (i.e., are no more likely to complain in a given circumstance), we should expect a tremendous increase in dissatisfaction and complaining behavior solely as a result of growth trends in the economy.

If, in fact, there has been an increase in the "average propensity to complain"[9] over the population, the effects of even small increases in complaining tendencies will be greatly magnified by the "multiplier effects" of strong growth trends in the economy.

Consequence of Political Activism?

The sharp rise in public expressions of consumer discontent, and individual complaining activities during the 1960s and early 1970s paralleled increases in political unrest and the spread of political activism. To a considerable extent, consumerist activities were entwined with the other activities of political activists who were declared enemies of "the establishment." Also the struggle by racial minorities against discrimination and widespread anti-war activities tended to legitimize protests and complaints on the part of those who were dissatisfied with other things, including consumption experiences. Just how much effect the "herd instinct" had in the rise of publicly expressed consumer dissatisfaction and complaining activities is difficult to assess. Clearly it played a role in protests against rising prices and marketing practices but the effect on individual complaining behavior is less clear. However, it seems very likely that the climate of "speaking out for your rights" did contribute to the increases in complaints and the effects of this probably still persist even though mass actions are less common and the popularity of individual consumer advocates appears to have waned.

The roots of increased levels of expressed dissatisfaction and complaining activities in political activism suggests that the young and politically active people who figured prominently in the political unrest of the late 1960s and early 1970s may be primarily responsible for the continuing high levels of complaining activity. Although the empirical evidence is somewhat sketchy, it offers some support for this conclusion. In a study of consumer complaining behavior utilizing a national sample of 1,250 consumers, it was found that 24.2 percent of the respondents reported that they had an unsatisfactory consumer experience and took some action, 11.3 percent said that they had been dissatisfied but did nothing about it, and 64.5 percent said that they had not been dissatisfied. The group which complained had a lower average age, a higher average level of education, higher average income, and higher social status. A substantially higher percentage of the complaining group stated a political inclination and a much higher percentage identified themselves as liberals than as conservatives. By contrast, the group which reported no dissatisfaction had the highest average age of the three groups and the highest percentage of conservatives.[10] This study and several others have indicated that the people who complain are not a typical cross section of the population. However, the overrepresented segment is not the poor and disadvantaged element of the population as one might have expected but is the younger, more highly educated, more affluent, and politically active "elite" segment of the population.

Consequence of the Insensitivity of Business?

Several years ago Ralph Nader said, "consumers are being manipulated, defrauded, and injured not just by marginal business or fly-by-night hucksters, but by U.S. blue chip business firms" and "business crime and corporate intransigence are the really urgent menace to law and order in America."[11] Nader is hardly known for a propensity to understate a point and many people who would not agree with these statements nevertheless feel that the growth of consumer dissatisfaction and complaining activities is largely the fault of businessmen. One may accept that the great majority of businessmen are honest and law abiding citizens who should not have to accept blame for the dishonest fringe of the business world but still argue that business deserves a major share of the blame for high levels of consumer dissatisfaction. An example of how this could occur is the situation in which two competing firms concentrate on "meeting competition" rather than on meeting the needs of consumers. This frequently happens when the firms compete with useless gimmicks or engage in mindless advertising rather than by competing with product improvements, better service, or lower prices.

A popular article in the consumerism literature is entitled "The Dialogue that Never Happens."[12] The dialogue of interest in the article was that between businessmen and government. It could be argued that the dialogue which never happens between consumers and business not only is the more important one but could reduce the need for discourse between government regulatory agencies and business. Many firms assume that because they are currently successful in terms of profit performance, they are also successful in meeting the consumer's needs. It may be that a business remains profitable because of a lack of competition or some other temporary circumstance in spite of a high level of dissatisfaction and unrest among its customers. While no business can expect to completely eliminate cases of customer dissatisfaction, "dialogues that should happen" can enable marketers to be more sensitive to changing consumer needs and more responsive to consumer feedback.

Which View is Correct?

The foregoing discussions of alternative explanations for increases in consumer complaining activities in recent years are necessarily brief and do not exhaust the possible explanations that might be advanced. However, they have provided a variety of perspectives and each can be supported with empirical evidence, logical reasoning, or both. None of these suggested explanations adequately explains the phenomena, yet each contains an element of truth. Clearly the growth of the economy and the increasing complexity of goods and services have jointly contributed to the increasing number of unsatisfactory consumption experiences. It would be hard to refute the effects of political unrest and activism on the "consumer movement" through its encouragement of complaining activities. This is supported by evidence that a disproportionate amount of the complaining ia done by the younger, more affluent, better educated, and politically aware element of the population. The blind spots and insensitivities of many marketers to the needs and aspirations of consumers have clearly played a role and "standard marketing practices" may have compounded the problem by creating unrealistic expectations. It also seems clear that many consumers have also displayed insensitivities to the problem of business and frequently are unwilling to accept responsibility for poor choices they have made as consumers.

What is the appropriate conclusion? The major thing that can be concluded is that the blame for consumer dissatisfaction can not be attributed solely to either the growth of our economy, to the excesses and insensitivities of business, or to the excesses and insensitivities of consumers. All of these have contributed to the problem and one might say that consumers and responsible businessmen are simultaneously the attacker and the victim. This confused situation has been aggravated by self appointed consumer advocates who have presented a grossly biased and sensationalized view of the situation and by some of the more militant business firms who have sought to do battle with the consumerists and governmental regulatory agencies, rather than to work to identify and overcome legitimate consumer complaints. Government agencies have been criticized both by consumer advocates and business advocates and in general have not been very effective in dealing with the situation.

The following section will suggest that a major problem has been the general lack of communication among the four "parties" in the market place: consumers as individuals; businessmen, business firms, and their organizations; consumerist organizations; and government regulatory agencies with responsibility for consumer protection. Some proposals for steps to increase communication and cooperation among the parties will be presented and briefly discussed.

Time to Listen Better

The growth of consumerism in the 1960s and early 1970s may have been exaggerated somewhat by the political unrest and activism of the times, and some consumer advocates may have let their rhetoric get out of hand, but it is clear that the rise of consumerism was not a spurious phenomenon. While it may wax and wane, the "consumer movement" is with us to stay. In a large consumption-oriented society such as ours, it is important that the collective interests of consumers not be overlooked. Consumers should accept a major share of the responsibility for protecting their interests, both in their personal, individual transactions and on an aggregative basis in seeing that the consumer viewpoint is communicated to the business community as well as to the law makers and regulatory agencies at all levels of government. However, the kind of public bitterness and hostility which erupted in the 1960s between consumer advocates (mostly self appointed) and spokesmen for business and industry has been dysfunctional and is potentially destructive.

The four parties of the marketplace must learn to communicate better with each other than they have in the past. Communications among the parties of the marketplace must be based more on carefully documented fact and less on emotional reactions and recrimination. Past reliance on volunteered complaint letters and other records of consumer initiated complaining activities has contributed to an unpleasant atmosphere of negativism and reaction and should be ended. Suggestions for improved methods of gathering and disseminating the needed factual data by each of the four major "parties" of the marketplace will be discussed briefly below. The discussions will be illustrative instead of comprehensive and are best regarded as suggestions of directions to be taken rather than plans for action.

How Marketers Can Listen Better

Very few manufacturers and merchandising firms have made strong positive steps to listen to consumers and learn in detail about what they like and dislike about the goods and services made available to them. Some firms seem to feel that sales data can tell them all they need to know about the consumer's reaction to the product, not recognizing that it is telling them much more about business conditions and circumstantial factors than about consumer satisfactions and dissatisfactions. Information on complaints may be ignored or handled in a perfunctory manner. Most firms make an effort to collect data on the complaint letters received, make some adjustment for the complainer in each case, and take comfort in the fact that those who contact the company to complain are a small percentage of the total market. In general, these firms assume that the complainers are but a small fringe of the market, some of whom are chronic malcontents while others are "normal" consumers who happened to be unlucky and get a defective product or poor service. This points up one of the "communication gaps" between marketing firms and the other parties in the marketplace. Individual consumers may take their unsatisfactory experiences seriously and become militant "enemies" of the firm. Both consumerist organizations and government consumer protection agencies tend to regard the volunteered complaints as the exposed tip of a huge submerged iceberg of unreported complaints and dissatisfactions. For most marketing firms, the truth with regard to their particular market lies somewhere in between. Marketers need to have a better approximation of the true situation than they presently have (as do the other parties in the marketplace).

The limited amount of survey research which has been done on consumer complaining behavior suggests that the notion of the "hidden iceberg of complaints" is much closer to the truth than either the assumption that volunteered complaint data is an accurate reflection of complaints or that it overstates complaints. Past studies have shown that many highly dissatisfied consumers simply take private action against unsatisfactory products (boycotting the brand, disseminating negative word of mouth advertising) and never communicate with the seller.[13] On the other hand, it appears that there are some consumers who are both "complaint prone" and atypical of the population in their consumption patterns so that the peak of the "iceberg" not only grossly understates the amount of dissatisfaction but provides a very biased estimate of the content of the submerged portion.

Whether or not they have historically received a large number of complaints, most marketers would do well to "listen better" to their customers by conducting carefully designed "baseline" studies of satisfaction, dissatisfaction, and complaining behavior for their products and services. This will provide a much better assessment of consumer satisfaction with the company's products and services by providing a look at the contents of the entire "iceberg." It will also indicate the extent to which voluntary complaints represent the total population and reveal whether or not a continuous monitoring system is required. Many companies may find that the detailed information such a study can provide on what consumers like about their products may be of far greater value than the information on complaining activities. In particular, careful assessment of the three types of expectations, as discussed above, can provide valuable insights which will be useful in assessing the product offering and marketing program. Research methods for studying the satisfaction/dissatisfaction and complaining behavior processes are now being developed. The impetus has come primarily from federal agencies[14] and the National Science Foundation,[15] rather than from business firms or consumer organizations.

How Consumers Can Listen Better

Most people have a tendency to shift the blame for things which go wrong to others. Consumers tend to place the blame for their dissatisfactions on the business firms which produce and market the goods and services and consumerist activities have tended to reinforce this tendency. Much of the consumerist literature of the 1960s casts businessmen in the role of crafty thieves out to bilk the public or at best as insensitive bumblers who ignore the consumer's needs. The widespread thievery, fraud, and vandalism against business perpetuated by consumers has largely been ignored by consumerists, and it is rarely acknowledged that among the honest and law abiding majority of consumers there are also insensitive bumblers who become highly dissatisfied as the result of their own ignorance of ineptitude as consumers, rather than as the result of any failure of the goods or services or of the market systems. A starting point for better listening by consumers is the recognition that a substantial amount of consumer dissatisfaction can be avoided if consumers exert a reasonable level of care in selecting and consuming the products they purchase.

An important aspect of being a consumer is "listening" for information which will aid in making satisfactory choices. Since satisfaction depends on prior expectations as well as perceived performance, major functions of prepurchase information gathering are: the formation of realistic expectations about the attributes and features of the product; the total direct costs of purchase and use (monetary costs, shopping costs, costs of maintenance and use); and the subjective benefits and costs of the purchase and use of the product derived from the reactions of others. Better "listening" by the consumer in the prepurchase situation includes the personal process of "needs assessment" as well as gathering information on the alternatives available in the market. In the shopping/purchase stage, information about sources, services, and warranties is needed along with information on the item itself. Although the consumer cannot be expected to make a "big deal" of every purchase, small investments in "listening" can have a major effect on subsequent satisfaction when the purchase is of more than casual importance to the consumer. In the postpurchase situation, small investments of time in reading instructions or obtaining advice on proper use of the product frequently can forestall dissatisfaction resulting from inappropriate expectations or improper use. In the case where things do go wrong, efforts to identify the alternative ways one might proceed in obtaining redress can frequently reduce the amount of inconvenience and dissatisfaction caused by the incident. In other words, better listening can increase the consumer's effectiveness as a consumer and, when complaining is warranted, as a complainer.

How Consumer Organizations Can Listen Better

There is a "consumerism movement" in the United States in only a very loose sense. There is no large "umbrella organization" of consumers with elected leaders to represent their interests. Instead, there are a number of consumer organizations, most of which are quite small and none of which can claim to have a membership which is representative of the total population. Just how much influence these organizations have, and how beneficial their actions have been to consumers, is not clear. It is clear that some of them, especially those associated with Ralph Nader, have been able to get attention in the press and have attracted both supporters and detractors who are highly vocal. Perhaps the most common trait of consumer advocates is that they seem to be far more interested in telling consumers what they should be concerned about than in finding out what consumers really are concerned about. If consumer organizations are to play a significant role, their leadership needs to learn to listen better to a representative cross section of consumers, not just to themselves or to others very much like them. They need to learn more about how consumers in different walks of life and different economic circumstances buy and use products, the kinds of things they find to be highly satisfactory and the things they find unsatisfactory, and what they do after having unsatisfactory experiences. At times, consumer advocates appear to be in the position of a lawyer who is trying to represent a client he has never met and knows practically nothing about.

Consumer organizations also need to learn to understand better the other parties in the marketplace. Charges leveled against business frequently reveal a superficial understanding of how business firms operate, and an overriding distrust of business frequently leads to the disregard of information which would be useful in resolving differences. Even though the objectives of consumer advocates are very similar to those of governmental consumer protection agencies, there appears to have been little cooperation or mutual trust between them. Consumer advocates have tended to consider the federal consumer protection agencies either as inept and ineffective or as tools of business interests. It would clearly be possible for consumer organizations to listen better both to business and governmental agencies without danger of compromising their advocacy. This is especially so now that some business firms and governmental agencies have begun to develop useful consumer data banks. If consumer organizations were to make a stronger effort to listen to the other parties in the marketplace, they might say, with Pogo, "we have met the enemy and he is us."

How Consumer Protection Agencies Can Listen Better

Governmental consumer protection agencies tend to be dominated by lawyers who are conditioned to see things in terms of adversary relationships, stressing "us against them." Of course, the "them" refers to marketers from whom consumers are to be protected. Lawyers are also conditioned to react to the evidence available to them and, in the absence of any program of research on consumer satisfaction, dissatisfaction, and complaining behavior, they have tended to rely heavily on volunteered complaint data. Complaint data has been a major basis for program planning in most agencies for years with little apparent concern for the possibility that the data might be extremely biased and unrepresentative. Fortunately, there has been some recognition in recent years of a possible role for marketing and consumer behavior experts. This novel idea was first tried by the Office of Policy Planning and Evaluation and the Bureau of Consumer Protection of the Federal Trade Commission about four years ago. More recently the Office of Consumer Affairs has used consumer behavior experts on a consulting basis, and hopefully, the Consumer Product Safety Commission is joining the fold. When consumer behavior specialists come, can survey research be far behind? Although the foothold of marketing and consumer behavior experts in consumer protection agencies is still rather uncertain, a start has been made toward the use of survey research studies to obtain data from a large national probability sample to study the processes of consumer satisfaction/dissatisfaction and complaining.[16]

The strategy adopted for the first major effort to help consumer protection agencies to "listen better" through survey research is first to obtain general indications of the consumer's degree of satisfaction/dissatisfaction for each of 200 homogeneous groupings of products and services. These will provide a comprehensive assessment of the general levels of satisfaction/dissatisfaction over the entire range of consumer products and services, something that has never been done before. These general satisfaction indexes can be adjusted by the importance of the product category and the fraction of the population using the item to provide a general diagnostic tool at an aggregated level. Probes are made for unsatisfactory experiences in such a way that specific items within the aggregated categories can be broken out to identify particular types of products that are highly unsatisfactory. Respondents indicate the particular sources of dissatisfaction and what, if anything, they did as a consequence of their dissatisfaction. The results can provide data from a national probability sample (with regional breakdowns) that will not only be more representative than volunteered complaint data but will be much richer and more complete than previous data. Although the data obtained in this manner will still be fairly crude, it will represent a "great leap forward" for the consumer protection agencies and, hopefully, will provide the basis of a consumer data bank and serve as the prototype for more definitive future studies.[17]

Summary and Conclusions

Criticism of the performance of the American marketing system has grown in recent years, in spite of the rising standard of living and the improving general quality of goods and services. The major basis of this criticism has been the documentation of particular instances of poor performance of products and services or poor performance of the marketing system which makes them available. In particular, the substantial rise in individual complaining activities has been accepted as a strong indictment of the performance of manufacturers and the marketing system. An effort has been made to identify possible explanations for this apparent paradox. After establishing a simple conceptual structure for thinking about satisfaction and dissatisfaction, it was suggested that a number of distinct factors have been involved in the growth of consumer dissatisfaction and that none of the major parties of the marketplace is so blameless as to be in a position of pointing the finger of blame at others. It was suggested that all parties can improve their performance if they "listen better" to each other. In particular, it was suggested that careful research on the consumer evaluation process and post purchase behavior can be of great value to business, government, and consumer organizations. It was also suggested that consumers themselves must take more responsibility for the consequences of their own behavior and also need to listen better to the various sources of information available to them in the marketplace.

Footnotes

[1]A discussion of several alternative psychological theories is contained in Rolph A. Anderson, "Consumer Dissatisfaction: The Effect of Disconfirmed Expectancy on Perceived Product Performance," Journal of Marketing Research, February 1973, pp. 38-44.

[2]These notions were first expressed in Ralph L. Day, "Alternative Definitions and Designs for Measuring Consumer Satisfaction," a paper presented at the Marketing Science Institute/National Science Foundation "Workshop on Conceptualization and Measurement of Consumer Satisfaction and Dissatisfaction," Chicago, Illinois, April 11-13, 1976.

[3]See Richard N. Cardozo, "An Experimental Study of Customer Effort, Expectation, and Satisfaction," Journal of Marketing Research, August 1965, pp. 244-249.

[4]Same reference as footnote 1.

[5]Same reference as footnote 2.

[6]See Raymond C. Stokes, "Consumerism and the Measurement of Consumer Dissatisfactions," speech at the American Marketing Association Attitude Research Conference, Madrid, Spain, February 1973.

[7]Same reference as footnote 6.

[8]Same reference as footnote 1.

[9]Some of the factors which influence the level of complaining activities have been discussed in Ralph L. Day and E. Laird Landon, Jr., "Toward a Theory of Consumer Complaining Behavior," in Arch Woodside, et al., Foundations of Consumer and Industrial Buying Behavior, American Elsevier, (forthcoming) 1977.

[10]See Rex H. Warland, Robert O. Hermann, and Jane Willits, "Dissatisfied Consumers: Who Gets Upset and Who Takes What Action," Journal of Consumer Affairs, Winter 1975, pp. 148-163.

[11]See Ralph Nader, "The Great American Gyp," David A. Aaker and George S. Day, Consumerism: Search for the Consumer Interest, The Free Press, 1971, pp. 43-58.

[12]See Raymond Bauer and Stephen Greyser, "The Dialogue That Never Happens," Harvard Business Review, January-February 1969, pp. 122-128.

[13]Same reference as footnote 9.

[14]See Ralph L. Day and E. Laird Landon, Jr., "Collecting Comprehensive Consumer Complaint Data by Survey Research," Advances in Consumer Research, Vol. III, Association for Consumer Research, 1976, pp. 263-268.

[15]The National Science Foundation has added impetus to research in this area by sponsoring a "Workshop on the Conceptualization and Measurement of Consumer Satisfaction," conducted by the Marketing Science Institute in Chicago, April 11-13, 1976.

[16]Same reference as footnote 14.

[17]Same reference as footnote 14.

IV

MACRO-MARKETING APPLIED: CASE HISTORIES AND EVALUATIONS

The third group of papers presents some of the current thinking about marketing as it relates to the issues of development, coordinating marketing for export services in an industrial society, Hawaii, and de-marketing of higher education. The first of these papers by Bartels distills some considerable wisdom about the role of marketing in an underdeveloped society, India. The second paper, by Bucklin, suggests some of the problems of applying intermediate technologies to improving food systems in underdeveloped Asian communities. The third paper by Zif and Izraeli describes some of the problems of coordinating marketing in a rapidly developing society, Israel. The fourth paper, by Black, Dahringer, Emery and Slater, explores the problems of applying marketing techniques to aspects of family planning. Barnet's paper discusses the many facets of marketing that are involved from a community viewpoint to develop an environmentally dependent industry -- tourism in Hawaii. The last two papers deal with the problems of higher education and the problems of planning for this critical service. Lamont's paper addresses the problems of de-marketing education in Wisconsin. The paper is written from the perspective of university administration rather than marketing, but the underlying principles of de-marketing are the themes that emerge. Lamont's long background in marketing enables him to contribute a marketing perspective to an administrative problem. This problem of de-marketing is one that will soon develop in many sectors of the economy as we approach the end of the petroleum age. Wish deals with the policy issues of applying macro-marketing concepts to the problems of planning higher education.

MARKETING AND ECONOMIC DEVELOPMENT

by

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A survey of marketing literature suggests that the subject of marketing in economic development has little interested marketing writers. It is not dealt with in basic marketing texts. In the Journal of Marketing, only a few articles have dealt with it, even in remote fashion. It has not been covered in book reviews. Abstracted articles relating to the subject have been drawn mainly from foreign publications and from periodicals not primarily concerned with marketing. What has been written has been descriptive, dealing with micro-marketing, and not with the larger role of marketing in economic or social programs as a whole.

Marketing writers have been concerned with marketing in developed, rather than underdeveloped countries. This is understandable. The growing surplus of products early in this century created an urgency to find new routes to the consumer. Marketing theory was therefore conceived in industrial economies, where individual, private enterprise responded to new marketing ideas. The success and independence of manufacturers and distributors in free economies minimized the need for macro-marketing plans.

Because marketing evolved as a technical and philosophical idea after achievement of a degree of economic development, it has not been regarded as an influence for development. This is no reason for longer avoiding consideration of it. It must now be considered whether marketing can be a leading factor in economic growth.

Marketing, an Adaptive Function

The sequence of marketing following production has been conceptualized in the term "adaptive." This signifies that the marketing task, functions, institutions, policies, and strategies are a consequence of environmental circumstances and that they adaptively change in response to environmental change. Awareness of need for marketing often coincides with changing the relationship between supply and demand. Most of the treatises on marketing in developing countries describe it in this capacity, as an adaptive process.

Even if marketing were only adaptive, it could still be a constructive force in economic development. Comparative research has shown that patterns in the relationship between marketing and environment tend to be alike where-ever similar economic and social conditions exist. They are independent of time and place. What shaped marketing systems in advanced countries will shape them in developing countries, as they become industrialized. Awareness of this makes possible improved planning for economic growth. It makes possible advanced preparation of markets, institutions, laws, inducements, and policies for marketing to serve increasing production. Knowledge of the coincidence of environment and marketing change enables entrepreneurs to foresee opportunities and better to assume risks of innovation. Radical change may not occur quickly, but the rate of change in developing countries will undoubtedly be faster than it was in those already developed, for technology is available, and familiarity with generic patterns will accelerate change.

Marketing, a Formative Influence

Marketing, however, is not merely passive and adaptive. It is dynamic, working change in behavior, attitudes, relationships, and values. It stimulates economic development and is not merely adaptive to it. This is its formative character.

Evidences that marketing does stimulate economic activity are numerous:

- Through quality standardization, unified sales promotion, and rational price determination, agricultural markets are extended and production increased.

- Through improvement of storage and transportation facilities, economies in distribution are achieved, markets expanded, and production encouraged.

- Through market research and information services, producers better schedule and allocate offerings, realize more stable prices, avoid excess competition, and better serve markets.

- Through product testing, manufacturers determine the acceptability of products, better utilize resources, and avoid waste.

- Through presale packaging, producers mechanize production, distribution, and consumption processes, with resulting economies and efficiencies for all.

- Through strategic location of wholesale and retail establishments, growth of shopping centers, residential areas, and highway systems is effected.

- Through advertising and consumer credit, demand is stimulated, consumption patterns changed, and markets opened for new products and new entrepreneuers.

- Through improvement of instore merchandising, shopping is facilitated and ideas conveyed for making personal living more convenient and enjoyable.

These have been the effects of marketing in the more developed countries. Such effects will be experienced gradually in the LDCs as they too apply marketing strategies.

Change in marketing, however, with its resulting influence on development, can occur only as the thinking of people in underdeveloped economies changes. One might say that "underdeveloped thinking" produces underdeveloped economies, whereas thinking and strategizing in accord with advanced marketing theory contributes to the development of economies. Modern marketing challenges assumptions and beliefs upon which underdevelopment rests, such as the following:

1. That interests of buyers and sellers are antagonistic

2. That haggled pricing is a marketing stimulant

3. That offerings of similar products afford no opportunity for competitive advantage

4. That maximum total profit is realized by obtaining maximum price per unit of sale

5. That a distributor's markup is a speculative increment

6. That "production" is honorable, but that distribution is disdainful

7. That the schedule of distribution must coincide with the schedule of production

8. That distributors' inventories represent a reservoir rather than a flow of goods

9. That financial dominance in the distribution channel is the best assurance of perpetuity of one's position

10. That provincial products are marketable in worldwide markets.

Consider, on the other hand, the stimulus experienced from implementing the following concepts:

- that service to the consumer is the prime objective of production and distribution,

- that market value and competitive advantage lie in intangible as well as tangible offerings,

- that volume-producing low margins may maximize net return,

- that controlled marketing through management of systems of flows and inventories best serves all concerned, or

- that product adaptation to the market best assures their marketability.

As these and other basic marketing principles supplant production-oriented economic traditions, fresh impulse will be given to both production and distribution, and consequently to total economic development.

Marketing Improvement - Under Whose Management?

If change in thinking is required before marketing can make its contribution to economic development, by what means, and at what levels can this be accomplished? Two possibilities are suggested: (1) at the operational level, by widespread education of businessmen in marketing principles; or (2) from a higher administrative level, through imposition upon operators of plans and policies for improvement of the entire marketing sector of the economy.

In underdeveloped countries there are deterrents to progress by the former means. Lack of education, in general, and of marketing technology in particular, perpetuates thought and practices based upon outmoded economic assumptions. Lack of communication among business participants, entrenchment of vested interests and capital dominance, and absence of incentive to change, make improbable early or rapid change of marketing practice within the existing structure. The establishment, however, is being shaken by new entrepreneuers, from aborad or trained abroad, who are introducing new marketing concepts. Such change is consonant with continuance of a capitalistic economy.

On the other hand, urgency to achieve economic development has fostered socialistic or Communistic government planning to alter and, hopefully, to improve marketing practices. Ranging from voluntary cooperation to state support, to state regulation, to state ownership, such plans usually deal with the broad or macro aspects of marketing, as the establishment of public marketing boards for the export sale of raw materials, licensing to avoid excess of middlemen, stabilization and fixing of prices, designation of trade practice rules, and the like. For better or for worse, individual marketers are expected to function within the purview of the general plan.

Whether achieved through micro- or macro-marketing management, through private or public initiative, economic development through marketing is contingent upon someone's knowledge of marketing theory. It is not a question of who owns marketing institutions or systems, not of who does the planning. Public administrators must be as knowledgeable of marketing as private entrepreneurs. Some of them from underdeveloped countires are being trained in the United States and in other industrialized countries. Perhaps more of our efforts should be directed to the marketing orientation of officials in public administration. Perhaps more also to macro-marketing policies in developing countries.

What Values for Marketing Management?

If economic development were the sole objective of marketing management in the less developed countries, little more need be said. The means are equal to the end; modern marketing technology can contribute to the increase of production and improvement of consumption. But the marketing mechanism is sometimes exploited for social, noneconomic objectives. Marketing scientists must be concerned with distortions of standard normative models, wherever they occur.

A reason that the marketing mechanism is vulnerable to social planners is that under former colonial and other governments, the market has been the medium for repression and exploitation of the indigenous people. Wholesale and retail trades have been preempted by foreigners, local nationals have been exploited through price manipulations of imports and exports, and innovation in marketing has been delayed because of ensconced interests.

Consequently, the marketing mechanism has been the object of attack from reformers who would transform not only the market but the capitalistic system, the social structure, the distribution of wealth, and the remnants of former political regimes. Many of their schemes have been illogical and inconsistent with the purpose of the distributive system to serve consumers. While their strategies have not invited emulation of marketers in advanced countries, their models are watched by other developing countries as patterns possibly to be followed.

In the fact of these occurrences, it behooves marketing specialists to be alert to the misuses of marketing, in the name but not in the fact of economic development, and to know the potential of sound marketing programs and their relation to human welfare.

Summary

In summary, a challenging opportunity lies before the marketing profession. A large field of economic development calls for new interpretations and applications of marketing philosophy and technology. Marketing management can be a formative influence in economic development, but its performance, entrusted to either private or public administration, should be of the highest quality of which it is capable. It is our responsibility to see that it is.

INTERMEDIATE TECHNOLOGIES FOR IMPROVING FOOD RETAILING EFFICIENCY IN DEVELOPING ASIAN COUNTRIES

by

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Over the past twenty-five years, much of the literature on the improvement of food retailing in developing countries has placed heavy emphasis upon the transfer of relatively capital-intensive technology originating in industrial nations. The small-scale, limited-line food retailer, and the lengthy, poorly coordinated distribution chain that serves him, have been identified as inefficient market elements. The literature holds that a modern system of vertically integrated supermarket chains would provide substantial benefits through scale economies, the adoption of self-service, and the by-passing of clogged wholesale food markets.

The purpose of this article is to suggest an alternative approach to this "high-technology" solution for developing Asian countries. This alternative calls for the recognition, at least for the medium term, of the permanence of much of the small retailer system. Improvements in their operations and business skills can be obtained gradually through the upgrading of the public market--or "bazaar," as it will be frequently referred to here--facilities and the management of these facilities. The fundamental argument behind this concept is that the supermarket, even in its more rudimentary version, is ill-equipped to aervice the low- and middle-income consumers in developing Asian countries. Hence, if gains in food distribution are to be obtained, they must be secured through improvement in domestic or intermediate technologies.

To pursue this rationale, the article will first examine briefly the nature of the high-technology approach. The limitations of this methodology for developing Asian countries will then be set forth. Third, selected characteristics of the dominant food market institution in these countries, the public market or bazaar, will be established. Major problems associated with the upgrading of these facilities will next be discussed, followed by a description of some approaches being taken toward this end in some countries. The article concludes with a discussion of possible directions for extending these approaches.[1]

The High-Technology Approach

Perhaps the earliest study to identify clearly the high-technology approach to the improvement of food retailing is the Galbraith and Holton report on Puerto Rico.[2] After an in-depth investigation of the costs of small-scale retailer operations, and the reductions in gross margin perceived possible through expansion of product line and volume, the authors concluded:

> On a priori grounds it would seem that development of an integrated chain store operation on a large scale in Puerto Rico is the most promising single project for improving distribution efficiency.
> . . . .
> The core of the problem is the small average volume of Puerto Rican food stores. A firm thoroughly aware of the economies of maximum sales per outlet and of how to achieve the sales volume large enough to realize those economies could take great strides toward the rationalization of food distribution. . . . Direct buying and efficient servicing of retail outlets from central warehouses would bring still further economies of operation. Thus a chain organization modified to fit Puerto Rico's needs could be a very powerful force for improvement of efficiency in food distribution on the island. Every effort should be bent to encourage the development of such organizations.[3]

Research conducted in Latin America by Michigan State University's Latin American Studies Center has done much to reinforce this approach.

The differences in the costs between traditional marketing systems and integrated chain store operations were dramatically depicted for a number of countries. In the LaPaz study, for example, it was held that "the effect of large-scale retailing . . . would be to reduce by at least 3.4 percent the price of the foods carried. . . . If savings through reduced acquisition costs were passed on completely to the consumer, an additional reduction in 5 percent in the price of food would be gained."[4] The actual ability of a supermarket to affect local prices was described in a study of Recife, Brazil, where the entry of a low-margin supermarket created a domino effect in the market, causing other self-service stores and neighborhood shops to reduce their gross margins as well.[5]

The technology incorporated in this approach is characterized by Slater as the "market integration thesis." Specifically, both horizontal and vertical integration are required.

> Horizontal coordination implies larger-scale retail outlets selling several products--including necessities to low-income people--and following "modern" practices of charging low margins for high-turnover staples and higher margins of low-turnover luxury goods.
>
> The vertical coordination of the marketing system reduces the intermediaries' risks associated with transactions. The capital available to the intermediary is expanded because of the dependability of the order placed by the horizontally integrated larger-scale retailer. The vertical coordination of the higher levels of the marketing system with horizontally integrated retail operations also creates a set of producer expectations that can result in fuller utilization of presently available productive capacity.[6]

A summary statement, eminating from an overview of the group of Latin American studies, provides this recommendation:

> Efficient food distribution can be achieved through the development of a variety of competitive wholesale-retail chains. The emphasis should be on governmental programs encouraging a competitive balance among the following types of wholesale-retail chains: (1) private chains--vertically and horizontally integrated chains of retail stores served by a single wholesale ware-

house . . . (2) retailer-owned cooperative chains . . . (3) voluntary chains . . . (4) consumer-owned cooperative chains . . . and (5) government-owned retail chains . . . .[7]

The total impact of these recommendations on government policy in developing countries throughout the world is difficult to ascertain. However, it appears that where marketing studies have developed and consultants from Western countries have been employed, diffusion has occurred. Perhaps the best example is to be found in Korea, where consultants recommended the adoption of various parts of the market integration thesis. The failure of an attempt to form a cooperative chain of independents led the government to develop an ambitious program to expand rapidly the number of corporate supermarkets. In 1974, the government "initiated a five-year plan for the modernization of the distribution sector and . . . implemented it with . . . various financial supports totaling $9 million . . . the government . . . urged several business tycoons (at present eight corporations) to invest in the distribution sector and thus to set up supermarket type chain stores . . . . The corporate chains are to receive approximately 38 thousand dollars as a long-term, low interest rate (8 percent) loan for the set-up of one chain store."[8] The program would result in almost tripling the number of supermarkets in the country.

Consumer cooperatives in various countries have also become involved in supermarkets, either already in operation or in the planning. In Manila, a United States consultant was called upon to recommend and develop a plan for a specific location. In Singapore, a cooperative sponsored by the labor movement was planning to expand a small initial system of five stores after recovering from an early brush with bankruptcy.

Role of the Supermarket in Asian Cities

Despite this interest in the supermarket, there is a limited incidence of this type of institution in Asian cities, with the exception of Japan. As shown in Table 1, the extent of diffusion is quite limited, although there are presently several chains of formidable size, even by Western standards. In some instances, the sparse numbers, such as in Singapore, are related to a government policy that restricts the development of supermarkets by non-nationals. In other instances, such as in Colorado, governmental controls over food distribution inhibit the willingness of entrepreneurs to risk the development of such a store.

For the most part, however, the lack of penetration relates more to the general low levels of income and the lack of patronage of such markets by the low- and middle-income groups. The supermarkets, such as those in some parts of Latin America, are located in the wealthier neighborhoods and cater to upper-income nationals and foreign residents. This pattern of development is rooted in the character of this institution. Supermarkets are largely merchandisers of packaged and processed foods, e.g., canned, boxed, dried, bagged. In the developing world, particularly in those cities with the very lowest income levels, only a small proportion of food is consumed from processed products. A typical diet in Korea is shown in Table 2. It shows that less than 10 percent of the total is consumed in processed form. For lower-income cities, and for the lowest-income brackets in those cities, the proportion of processed food consumed must be close to nil.

The consequence is that supermarkets in these low-income Asian cities have little choice but to focus their efforts upon higher income populations. Of course, although many (but not all) carry fresh foods, these are typically handled in such a way--e.g. bagged produce and refrigerated meat--that costs

TABLE 1

INCIDENCE OF SUPERMARKETS AND PER CAPITA INCOME FOR MAJOR ASIAN CITIES (Approximately 1973)

City	Per Capita Income (Dollars)	Supermarkets Number	Market Share
Tokyo	3,700	N.A.	20%
Singapore	1,050	9	N.A.
Kuala Lampur	1,000	11	N.A.
Hong Kong	724	70	N.A.
Seoul	500	35	5%
Manila	400	32	N.A.
Bangkok	300	35	4%
Delhi	198	0	0%
Colombo	180	0	0%
Djakarta	142	10	N.A.
Dacca	130	0	0
Bombay	110	0	0%

SOURCE: Unpublished data, Food and Agriculture Organization of the United Nations.

TABLE 2

FOOD-EXPENDITURE PATTERN OF SEOUL FAMILY
(April-June, 1974)

Food Item	Budget Percentage
Cereals	45.1
Meat and fish	13.8
Vegetables and seaweed	13.2
Condiments	7.9
Confectionery and soft drinks	5.8
Processed food	4.0
Milk and eggs	3.5
Alcoholic beverages	1.8
Food--away from home	4.9

SOURCE: Sang Lak Oh, "Urban Food Marketing Systems in Seoul," in Food Marketing Systems in Asian Cities (Bangkok: Road and Agriculture Organization of the United Nations, 1975), p. 132.

are increased relative to those in other types of retail institutions. Hence, they may not be priced competitively with fresh foods available elsewhere.

Whether supermarket operators can shift their product orientation to one that primarily emphasizes fresh foods is a tantalizing proposition, but one for which the odds appear sharply adverse. The handling of both produce and fresh meat are more labor-intensive than groceries. Even among the high-income classes, supermarkets have rarely been able to employ self-service operations for meat. Items are not always cut to order, and they are specially weighed and wrapped upon demand. In the same vein, produce must be specially cared for, pruned, and carefully priced to avoid holding some items too long. Refrigeration and wrapping to avoid spoilage, however, have added costs and resulted in a reputation that supermarket products are less fresh than those in the marketplace.

Beyond this, the search for economies for backward integration in fresh foods has been frustrated to a large degree. Supermarket chains do exist, but few warrant the volume to develop their own warehouse system. Managerial interests and capabilities in this area appear significantly limited. This development has been slow even for processed goods because of the role of importer warehouses in the channel. More important, however, the lack of product specialization and grading in rural wholesale markets makes efficient field purchasing extraordinarily difficult. Farmers have not shifted to large-scale specialization as they have in the United States. They and the first handlers in the system seek buyers who will take all their produce, not just one quality level. As a consequence, the assortment function of the central wholesale markets remains an exceedingly critical one. Even in Japan the central wholesale markets for fresh products remain predominant with supermarkets buying from the same source as the independents.

A final dimension of the supermarket's role, and one perhaps peculiar to Asian markets, concerns its participation in the sale of the principal food product, rice. Surprisingly, few supermarkets carry more than a small quantity of high quality, packaged rice. Their abandonment of this market to the independent rice dealer appears due to government regulation of the rice-marketing system. This has favored the position of the independent rice dealer. Also, the gross margins of 6 percent or so that are sometimes to be found are unattractive to the supermarkets, reducing their incentive to sell the product.

At the same time, many consumers--especially those in the higher-income brackets, typically purchase rice in substantially large quantities. This makes delivery by the rice dealer both economically and logistically desirable. The supermarket is thus unable to offer significant advantage in the sale of _the_ major Asian food product.

In sum, therefore, the technology of the Western supermarket is not well suited at this time to serving the needs of the low-income food buyer. This is not to say that they can make no contribution, for this is not the case. Supermarkets play an important role in improving standards for food retail service and introducing new products to the market. In some places they have an impact on processed foor prices, but this typically extends only to neighborhood grocery shops--not to the fresh food markets. Consequently, alternative approaches must be sought if progress in aiding the very poor is to be achieved.

The Asian Bazaar

While there are many thousands of provision shops throughout Asian cities, and a seemingly inexhaustible supply of street hawkers, 50 percent or more of the food purchases appear to be made within the confines of the bazaar.[9] The bazaar is a food market in which many tiny and highly specialized retailers function. Most such markets are chaotic, crowded, noisy, and colorful. By Western standards, however, they are dirty, unsanitary, and often highly unattractive. Food is typically sold from open stalls, unprotected from flies and other pests. Quality ranges widely, items are unsorted, and haggling a way of life.

Entrepreneurs put in long hours of work, starting early in the morning with purchases at the central wholesale market. They typically take responsibility for immediate delivery to their stalls. While timing varies among countries, in tropical areas the mornings are devoted to the sale of the day's purchases with the entrepreneur seeking to minimize the degree of food carryover. Afternoons are given over to the cleaning and removal of the day's accumulation of rubbish by the market personnel.

The persistence of this institution is due to the efficiencies such markets bring to the sorting and rapid turnover of perishable products. In a world where heat and rough handling shorten product shelf life drastically, and grading continues to be shunned, the central retail market remains a remarkably efficient institution. Despite its manifold deficiencies, it serves to meld heterogeneous supplies and demands while maintaining rapid turnover. The agglomerative power of the market is so strong that permanent shops selling fresh produce have difficulty locating any great distance away.

To the casual view, most such bazaars appear to be highly similar. However, the review of markets in different countries reveals substantial differences. These occur not only with respect to such obvious aspects as size, degree of intermixture with wholesalers and direct selling producers, but in the standards of service provided the consumer. Indeed, just as patterns in the development of Western retail food stores can be identified, so can an evolution be shown in formation of bazaars.

At the crudest level, such markets may be little more than open-air street fairs where food is displayed on makeshift fixtures or directly on the roadway. At more advanced levels, stalls emerge in permanent form, array themselves along tortuous paths, and invade nearby buildings in haphazard fashion. In the more advanced state, the buildings housing the stalls become large, specially constructed facilities. Some may be multistoried with parking facilities. Fixtures become more elaborate, wood is replaced with tile, ice is used everywhere to preserve foods, and some overnight refrigerated storage is to be found. The shops increase in size and tend to use modern materials and fully enclosed facilities.

In sum, food bazaars vary dramatically from their stereotype. While most retain the informality and atmosphere of a fair, they have the capacity of catering to both the wealthy and the poor. The continual upgrading of these facilities, as a consequence, represents at least one means for improving the food marketing system of developing countries. Given the difficulties involved in broadening the customer base of supermarket chains, it may well be the most feasible approach to aiding the low-income buyer.

Bazaar Problems

Policy makers seeking to improve the traditional bazaars, however, also face a wide range of barriers. These can be placed in three categories. They are: (1) the derivation of capital necessary for maintenance, modernization, and expansion of the bazaar system; (2) the design of more efficient and attractive facilities; and (3) the improvement of the efficiency of the food enterprises within the bazaar.

Capital

In all Asian cities the inability of the food retail system to keep pace with consumer needs derives partly from the rapid rate of population expansion. More fundamentally, the difficulty is rooted in the failure of such systems to generate capital that can be made available for the necessary expansion and modernization.

In most Asian cities, with the exception of Seoul, the majority of the bazaars are operated by municipal governments. In such markets, the political pressures wielded by the many small-scale merchants serve to keep stall space rentals low. Rentals scarcely cover stall replacement, let alone the economic value of the land. Increases, when they can be achieved, scarcely match inflation. Beyond this, collection rates lag for a variety of reasons, with a significant number of merchants in arrears.

Where markets are owned by private parties, some of these drains on capital are obviously closed. However, it is not clear that the capital so generated is funneled back into the system. The nature of the incentives for private owners to take such action may be limited by a number of factors. Inhibitions may also lie in the difficulty of obtaining space for new facilities, given the high value of land in all Asian cities.

Design

Without doubt, the efficiency of the public markets and bazaars built in recent years is substantially superior to older facilities. Space is greater and better organized and congestion is reduced through the straightening and widening of traffic lanes. Concrete floors and drainage systems offer time savings and the opportunity for easier removal of the refuse that accumulates.

Despite such gains, however, it is apparent that the design of most of the newer markets reflects more of the historic housekeeping approach to operating the bazaar than one of total channel efficiency. Scant attention, for example, is typically paid to designs that would stimulate the attractiveness of the facilities or enhance the flow of products from the central wholesale market. Most continue to be dark and dreary concrete buildings, dank and musty from the incessant flows of water and the daily buildup of rubbish generated during the day which has no place to go but on the floor. For central wholesale market produce to reach the stalls it must be off-loaded from trucks and portered some distance to the various points of sale.

Other dimensions of design which appear to be resolved from past practice and political pressure are the location of the bazaar, its size relative to the population and competing centers, the number of storiea, the mix of retail tenants, location within the building of such tenants, and the design of the fixtures. Rough rules of thumb exist, but the rationale behind such rules can seldom be described in any economic terms.

Enterprise Efficiency

With the evolution of the bazaar, there tends to be growth and change in the character of the firms operating in the market. Firms get larger, develop more enclosed space, adopt the more extensive use of ice, install telephones, use adding machines, and add some refrigerated space. The confines of a given market, however, seldom provide a great deal of incentive for rapid innovation and change.

One major reason is the limitation on the size of the individual stall space. Market policy appears generally to limit the space, sometimes to an area of less than a square meter. This maximizes the available space for the typically overwhelming demand by squatters or hawkers outside the markets, but makes it impossible for the individual entrepreneur to undertake innovations that would be economical with greater scale. In an important sense, the general lack of sufficient space for all retail activities in the city inhibits the development of individual retailers.

Another reason is the absence of any significant level of cooperation among the merchants of the market. Each operator performs all of the functions of running the business: the buying, the transporting, the trimming, the selling. Opportunities for cooperative activity would appear, at least superfically, to be substantial. These are occasionally realized in the sharing of a truck for bringing fresh produce into the market, yet even when these cooperative ventures exist they seem to have little impact upon the long hours of work necessary to operate the stalls.

A final reason for slowness in innovation is the lack of knowledge of the availability of new techniques. Many entrepreneurs are not well schooled in their businesses and lack access to new ideas. There may also be substantial resistance to change because of capital costs, uncertainties, and preferences for the old ways. Where the desire to change exists, credit for the capital required may be unavailable because money is poorly handled; accounting is not well understood; and bankers have alternative, less risky places to loan their funds.

Efforts to Change

Despite the various barriers to increasing the rate of development of the bazaar system, there have been a few significant efforts to change. Where, for example, the management of these systems has been removed from the hands of a moribund city bureaucracy--who visioned their work as one of caretaking, rather than marketing--attempts have been made to introduce new management.

In the Philippines, a private corporation has been awarded a long-term lease to manage, repair, and expand the number of public markets. The company has already introduced substantial new capital to modernize markets that had seen little improvement in many years. However, much opposition to the approach was being registered by independent merchants fearful of exploitation by the new firm.[10]

In Singapore, the construction of new markets has become the responsibility of the Housing and Development Board. The ambitious program of Singapore's government to resettle the population in new and improved housing, requiring the construction of complete "new towns," has included the formation of shopping facilities as well. Part of these have been devoted to the more traditional bazaar. These stand competitively successful beside Western-type facilities.

Perhaps the most interesting development is in Jakarta, where a series of government corporations, divorced from the city-state bureaucracy, have been established to construct and operate wholesale and retail markets. Different corporations have been formed for various wholesale markets and one for the retail.

The formation of this corporation has resulted in the development of a planned approach to the construction of new markets. Objectives have been established to provide .15 hectares of market space for each 5,000 inhabitants. Five existing markets were totally rebuilt, but with only 40 hectares (one hectare equals 2.471 acres), it was estimated that 110 additional hectares were needed just to serve the existing population.[11]

A final example worthy of mention is the construction of a new bazaar by private enterprise in Manila. Established in a huge, high-roofed building (which conceivably might have seen prior service as a factory), with many windows to allow fresh air and light, a bright, colorful, and well-laid-out facility was developed. The aisles were broad and clean; the stalls large, painted in attractive colors, and well lighted; the produce stacked upon the tables in tempting display. More important, the market was jammed with shoppers while virtually next door, a huge, modern supermarket--the equal of any in the United States--was largely empty, its gleaming produce and meat counters patronized sparingly. Clearly, here was an example that the competitive impact of a bazaar remained potent and that the development of attractive facilities would do much to retain the patronage of even the most fastidious consumer.

Conclusions

In Asian countries, for the most part, the consumption of processed and packaged foods has been limited by the very low income of large elements of their populations. For food distribution, the bazaar or public market has retained a substantially higher share of the public's expenditures. The economic and strategic advantages of the supermarket for serving this public are limited. As a consequence, a superior use of public funds suggests that policies be directed toward improving the quality of food service by upgrading existing bazaars and public markets rather than by subsidizing the growth of institutions which primarily serve the relatively rich.

The research that has been conducted upon the feasibility of such policies is regretfully minimal. There have been no known cost-benefit analyses, no evaluation of the improvement of facility appearance upon patronage, no examination of the sociology of the market vendors to accept direction and change, no examination of the incentives necessary for the introduction of private enterprise to the role of market builders or stimulating their vigor to improve existing facilities.

Some insighyful thinking was done in the Recife study about the opportunity for public market reform. The authors stated: "The renovation of the appeal of public markets and fairs and the institutionalization of the operators themselves . . . is very worthwhile from the standpoint of lowering the prices of food . . ."[12] But no quantitative estimates of costs and benefits were undertaken. In the summary of the Latin American Studies Center's work in developing countries, however, no mention of the opportunities for improving food marketing system operation by this means was made, and it must be assumed that the ideas were discarded.[13]

Since the high-technology solution of the vertically integrated chain store seems likely to be one of dubious value for the low-income population for much of the foreseeable future, alternative procedures must be sought. The revitalization of the existing public markets through modernization and the provision of entrepreneurial services to its retailers warrants a far closer look than it has been given. The entrepreneurial unit becomes the bazaar itself and management the focal point for innovation. Evidence exists that change is possible and that, when well managed, a vigorous and highly competitive institution can emerge.

FOOTNOTES

[1]Most of the research for this article is derived from a study of food marketing undertaken by the author for the United Nations Food and Agriculture Organization. In this research, the author visited foor markets in Japan, Korea, the Philippines, Indonesia, Sri Lanka, Singapore, Bangkok, and Malaysia. He also participated in an FAO-sponsored conference of food marketing experts from most Southeast Asia countries held in Kuala Lampur in 1974. The ideas expressed, however, are not necessarily those of the FAO and responsibility for them lies with the author.

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A CENTRAL MARKETING AUTHORITY
THE CASE OF ISRAELI MARKETING BOARDS

by

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Introduction

Institutions which can be called marketing boards are responsible for directing and guiding major branches of agriculture in many countries. The impact of marketing boards on the feeding of millions of people throughout the world makes them powerful bodies. These institutions do not fall into a simple classification of private enterprises or government agencies, they comprise a mixture of both.

The purpose of this paper is to explore certain aspects of marketing boards from a societal point of view. It is our belief that the combination of government authority with private interests and public representatives is creating a new and important form of organization. Many problems which were previously solved either by free forces or by the government alone are now being solved by marketing boards.

A marketing board is defined as a producer-influenced compulsory organization sanctioned by the government to act as a central marketing authority for a specific industry (or agricultural branch) designed to achieve efficient and orderly marketing. There are different kinds of marketing boards and they serve different functions (1, 2, 3, 4). Some marketing boards are no more than regulatory agencies. Other boards have authority and structure which give them a dominant position in a branch. We have elected to concentrate primarily on marketing boards which are responsible for major functions.

Our case is based on the Israeli experience, and this choice is not just for convenience. The Israeli marketing boards deal with about 90 percent of the diversified and rapidly growing agricultural output of the country. The marketing boards were sanctioned by the government to include not only producers, but also distributors and users. The entire system of agriculture in Israel has a societal orientation which originated with the development of the state. Farmers in Israel have been in the forefront of the country's leadership; as a result, a societal point of view became part of accepted norms and ideology. Israel is therefore a unique place to study when one is interested in a societal orientation of marketing boards.

The case of Israeli boards can serve as an example for a working central marketing authority that is based on inter-sectorial participation and reserves a significant degree of competition. Further development of this type of institution can influence both theoretical thinking and business applications.

In this paper we summarize three concepts from our research on marketing boards:*

1. The marketing board as a central institution of a branch
2. Management by objectives
3. Inter-sectoral structure

The Marketing Board as a Central Institution of a Branch

When the government creates a semi-autonomous institution based on cooperation between different sectors and with the power of enforcement, this

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*The detailed findings will be published in a forthcoming book: D. Izraeli and J. Zif, Societal Marketing Boards, Israel Universities Press and John Wiley.

institution assumes a central role. Why is a marketing board needed? Can a central authority perform more efficiently than free competition in the market place?

The essence of the answer lies in the nature of supply and demand for a product. We have assumed that for certain products like water, which are essential for the population and for which no close substitutes exist, a central authority is necessary. These are usually products for which it is either uneconomical or impossible to maintain a free and competitive market. Many agricultural products can be placed in this category. Under certain conditions of supply and demand, it is desirable to set up a central authority to prevent a private monopoly or monopsony, to prevent an excessive waste of resources, and to promote a group of products.

When the board is set up, the public at large and members of the board expect that the new institute will provide not only administrative functions, but also leadership for the whole branch. If the management of the board is capable and if existing centers of power are somewhat cooperative, the marketing board has an opportunity to fulfill the expectation for leadership.

The central role of the board implies responsibilities for both economic and social performance. A central authority must be concerned with the economic achievement of members and sectors as well as with the economic performance of the whole branch. Social responsibility implies that narrow considerations of economic performance - namely, the profitability of the members - cannot be sufficient. National priorities and public considerations must be taken into account, and these require economic sacrifices (5).

The expectation for leadership of various sectors and interest groups which constitute a branch, and the dual responsibility for economic and social performance, are major challenges. For these challenges to be met, effective management is needed. Adaptation of effective management methodology from business enterprises is the best answer for the management of marketing boards. This means management by objectives.

Management by Objectives

Management by objectives is practiced when organizational goals are specified in operational terms, action is taken to achieve these goals, and performance is systematically evaluated. Unfortunately, most marketing boards we studied do not practice management by objectives. They are either unwilling to specify their goals in operational terms and to measure performance, or incapable of doing so. Part of the explanation is management's desire to avoid conflicts which would be created by stating objectives that do not match the interests of certain parties in the board. This may be good politics, but it is poor management.

Most marketing boards share a number of common goal areas. These goal areas can be divided into five categories (6):

1. Profitability
2. Productivity
3. Market development (domestic and export)
4. Social responsibility (stability of supply, consumer prices, government income or subsidies, and other goals)
5. Innovation

Within each goal area, it is possible to set specific operational targets. These operation goals will differ, of course, from one board to another, based on economic and social conditions and the power positions within a board. These operational goals can be expressed in measurable terms for performance evaluation in the same way that goals of business firms are specified.

Management by objectives through systematic evaluation of performance will serve the internal needs for more effective and efficient management. It will also facilitate the review of the board by public representatives and members of parliament who gave the board its authority.

A set of yardsticks for performance evaluation of basic goals can be prepared. Some of the necessary measurements can be conducted only outside the board on a sampling basis. It is therefore desirable to assign this task to an independent and professional agency. It is our opinion that performance evaluation of goals should not be a matter of voluntary choice, but should be required by law. A marketing board, like any public company, should issue a certified annual report based on a predetermined set of performance measurements.

Inter-Sectorial Structure

Management philosophy and practice cannot replace the power base that a coalition of interests can create. A societal orientation of a marketing board will not survive indefinitely on the good intentions of certain sectors. A reasonable balance of power through representation of different sectors is a necessity for a societal board.

The legislature in Israel attempted to guarantee representation of different sectors on a marketing board. Cotton farmers share representation on the Cotton Board with the spinneries and the government. The Vegetable Board is represented by farmers, wholesalers, retailers and the government.

There is sufficient evidence that inter-sectorial structures of this kind can work reasonably well even though there are times of serious conflict among parties. (7)

When there are ample opportunities to create product differentiation in a competitive consumer market, the system does not require the representation of consumers on the board. When we study the Vegetable, Poultry or Dairy Boards, the need for active consumer participation becomes evident. Here we deal with undifferentiated products which are considered necessities and are purchased frequently in convenient stores. The freedom of choice of consumers in the market place is limited. There is a reasonable possibility that producers and distributors will take joint action contrary to the interests of consumers. Since the board takes legal action to limit free competition, consumers should be represented in order to protect their interests.

The Israeli law regarding the Vegetable Board calls for participation by two representatives of consumers (out of at least 40 members) to be appointed by the Minister of Agriculture and the Minister of Trade and Industry. Unfortunately, this representation is not working well. Consumers' representatives are not active, and members of the Board are quite happy without them. The situation is similar in other Israeli boards. Consumer organizations are relatively weak, and their representation on a board is insignificant.

The legislature should, in our opinion, adopt a policy that supports active consumer representation on certain agricultural boards, and the government should take affirmative action to make the intentions of the legislature operational. This requires a search for capable individuals who can represent the interests of consumers. It also requires that consumers be represented not only in the assembly which meets infrequently, but also in the Executive Committee which runs the board. Token representation of consumers is not a solution to the needs of societal boards.

Implications

This paper calls attention to a new emerging institution which combines the need for a central authority with a significant degree of autonomy by representatives of the publics concerned. It is possible that a perfect societal marketing board is a utopian concept. But there is evidence that a system reasonably close to a societal marketing board is operational. (8)

The creation of an inter-sectorial board transfers part of the exchange system, which is the essence of marketing, from the market place to the board room. Important decisions are reached by negotiations among representatives of parties on the basis of give and take. An important condition, however, is that all the sectors and relevant publics be truly represented, and that these representatives be accountable to their respective publics. Although this system of exchange is centralized, it preserves significant elements of competition in the market place. It can, therefore, be a desirable replacement for monopoly by private parties, or for government administration. The societal marketing board can strike a balance between the pressure for greater coordination, when the market mechanism is insufficient, and the wish to preserve elements of economic freedom and competition.

We focus on certain key concepts and methods which can give marketing boards a societal orientation. Application of these concepts is a serious challenge, however. Existing boards see the growers as their prime clients, and the economic performance of the growers is frequently in conflict with social responsibility. If the board is unable to satisfy its dual responsibility to the farmers and to the public, it is not performing well. A societal marketing board therefore requires an experienced manager who is able to maintain a delicate balance among the multiple objectives of the board.

His best approach is to find innovative solutions that will make the pie larger, rather than to divide it differently. The centralization of resources by the central authority makes it possible to invest in innovative programs.

Much more research is required to develop a comprehensive program of management for societal marketing boards. Five major questions for further research can be specified:

1. Under what conditions should a societal marketing board be set up, and what form should it take on under different circumstances?
2. What is the best way to implement the philosophy and methodology of management by objectives, and what can be expected as a result?
3. What is the best way to encourage the active participation of consumer representatives on a marketing board?
4. How can the vigor of competition and incentives for entrepreneurship be maintained within the framework of a coordinated board?
5. How can the methodology of control theory be applied to the marketing problems of a central agency?

These are not only interesting questions from an academic point of view, but practical questions facing government decision makers, members, and managers of marketing boards.

The tendency throughout the world is to increase the role of government; at the same time, there is plenty of evidence of government failure to meet public expectations. The growing social consciousness and the demand by social groups to have more say in the management of resources which affect their lives, are also major challenges which government and business must face. More democratically coordinated business institutions are indeed needed, and the societal board can provide a guideline for facing such challenges. The societal board provides a guide and an example not only for agricultural organizations, but also for other types of organizations that need a central authority with management ability and active participation of the publics concerned.

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THE SOCIAL ACCEPTANCE OF SOCIAL MARKETING
A CASE HISTORY OF FAMILY PLANNING IN KENYA

by

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This brief paper raises the question of what special requirements are needed to assure success of social marketing programs, presents a case history which highlights one critical need, and explores the special requirement of international social marketing schemes. Kotler and Zaltman in 1971 began use of the term social marketing.[1] The term refers to the use of marketing techniques to foster social goals, improved health, family planning, safety, etc. Social marketing utilizes publicly available channels to reach consumers or others with products and services that are deemed to have a favorable benefit/cost ratio. Alternatives to social marketing involve the use or creation of alternative channels. Sometimes these alternate channels exist, and it is a low incremental cost to add the socially marketed product or service. For example, firemen can sell picnic or ball tickets to raise funds instead of raising funds by taxes.

However, most socially desirable distribution problems involve creation or significant alteration of institutions to achieve the desired distribution. Agencies have been created to deliver social "goods" through extension services, cooperatives, and a wide variety of government agencies.

Most of these agencies are provided no clear and easy way to evaluate their performance. Cost effectiveness assessments, without market transactions, are hard to construct. In labor-surplus communities such lack of accountability may be of no great concern -- unless the presence of the non-accountable institution prevents vital tasks from being performed.

Family planning in Kenya is such a vital service, needed now to reduce the impact of population expansion. With a growth of population of 3.5 percent per year, it has been estimated that the arable land will not support the growing population much beyond the turn of the century. Thus, a vital task is to quickly broaden the acceptance of family planning and reduce the growth rate to minimize the impact of population pressure in less than one generation.

The key question is whether social marketing can make a contribution to this task. Not unrelated, can the addition of social marketing be made without upsetting the efficient performance of other family planning delivery mechanisms? What, if any, special arrangements must be developed to integrate social marketing into the family planning distribution system of Kenya? These are the questions that this paper attempts to address.

A demonstration project for the social marketing of condoms in Meru district of Kenya provides the occasion for this assessment. The details of the demonstration have been described by one of the authors.[2] Population Services International (P.S.I.), a non-profit organization distributing family planning information, supplies, and services in many countries, undertook in 1972 through 1976 to carry out a demonstration project in Kenya. The project involved:

1. Demonstrating how local commercial resources can be harnessed and orchestrated to promote and deliver family planning in rural areas;

2. Testing the hypothesis that when high quality contraceptives are tactfully marketed in the manner of consumer products, low income rural people will buy and use them;
3. Determining to what extent marketing methods can increase the level of family planning awareness and education.

The Setting

Meru district was selected for the test area and Kirinyaga was selected as the control area. Meru is about 2,000 sq. km. with a population of 600,000 located on the eastern slope of Mt. Kenya. Kirinyaga is similar and located on the southern slope of Mt. Kenya. The significant difference is in the language spoken in the two areas; thus, little contamination of the control area was expected. Each area had one family planning clinic for about 44,000 residents. Annual cash incomes averaged about $140 for about three-fifths of the households, and only one-tenth earned more than about $300 per year.

Marketing Research

Preliminary surveys of retailers (60 out of 1,200 were interviewed) suggested that little trouble would be encountered in marketing condoms as most duka (shop) operators were reasonably knowledgeable about family planning and most were willing to sell the product. Most felt mass media promotion would be acceptable.

Surveys of consumers and trade channels were then taken. It is important to note that a commercial survey firm was used to conduct the studies. This is another illustration of the utilization of commercial channels rather than creating ad hoc survey capabilities or relying on government services. Three surveys, a pre-launch of 560 in Meru and

350 in Kirinyaga, a follow-up survey in six months, and a final survey one year after launch, were conducted.

Most people were favorably disposed toward family planning -- 92 percent in Meru and 87 percent in Kirinyaga. Yet, one-third were Catholic. Family size ideals were large with one-half wanting four to six children.

Marketing Strategy

An advertising plan waa developed. Product was aelected and cost structure planned. Cost structure for a 7¢ U.S. retail price:

Shopkeeper	20%
Wholesaler	9%
Distributor	13%
P.S.I.	58% for management, package, product and promotion

A shelf hanger display was selected; also point of purchase display, radio and a "Kinga Man" mobile field education unit were planned. A launch seminar attended by 350 opinion leaders started the campaign.

Project Performance

One-third of outlets stocked the product during the first two months; 137,827 units were distributed during the first 12 months. One private family planning clinic operator took exception to the promotion and attempted to have the effort stopped. Interestingly, the duka operators felt offended by his action. They saw themselves as family planning counselors in their communities and not as law breakers. The criticism was stopped but not without a later impact.

Consumers were surveyed, as indicated above, and their awareness and attitudes were enhanced by the campaign. Two-thirds were aware of the product and approved of its sale. Only 19 percent disapproved, primarily midele aged, upper income, Protestant women.

Attitudes toward family planning were affected by the program. Significant changes in awareness of family planning by pill, condom and IUD occurred in the test area and not in the control area. Approval of family planning increased significantly (88 to 94 percent). Current methods of contraception by condom and by all methods were significantly enhanced. Family size expectations were reduced as well.

At an operating level the program was a success. One hundred condoms provide one couple a year's protection (cyp). In a community of about 100,000 fecund couples 1,870 cyp were provided -- a 2 percent impact. Extrapolating, the program would provide about 30,000 cyp in a nation of about two million households. If one outlet per 400 fertile couples sold condoms at a subsidized cost of $250,000 to $300,000 per year, protection would be provided to reduce the population growth rate by about one-tenth, or a benefit of about six million dollars for a national campaign at a cost of $300,000, a ratio of twenty to one!

Evaluation

While the good results cited above indicate the feasibility of social marketing of condoms, and perhaps by extension, other family planning supplies such as foam and the pill, the program is not going forward. It is instructive to explore why the program has stopped. P.S.I. was funded by USAID for this demonstration. Thus, the source of the funding came from outside Kenya and from a foreign government. It was obligatory that the project have the written approval of the Government of Kenya to allow the overt participation by the U.S. government. Since the program did receive criticism from a disgruntled clinic operator in Meru and about one-fifth of respondents disapproved of the sale of Kinga condoms, there was a political hesitancy to sign a letter of approval. A fuller understanding of the costs and benefits might have persuaded the government officials to give overt approval. Also, a longer-term institution building program could have altered the need for written approval as a sign of acceptance. For example, a local group in Nairobi could have sought support for the program from several sources, local as well as international. In this way the program could have been of local origin and not needed formal government approval. Finally, a solution might be for a multi-national conglomerate to undertake to solicit support from other areas and other business endeavors to fund this kind of scheme.[3]

Social marketing has a major contribution to make to development, family planning, and social justice in underdeveloped and industrial societies. The barrier to making this contribution is apparently not in the technical aspects of applying state-of-the-art marketing to these problems. The barrier appears to be in the necessary endorsements to accept available funds from external institutions. The recent wave of disclosures of bribery by multi-national corporations suggests such approval to operate in Third World areas is awkward.

It seems it may be our professional responsibility to make known the feasibility of social marketing, and then let public pressure be the basis for forcing approval of redistributive funding of social marketing.

FOOTNOTES

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MACRO-MARKETING REVISITED: TOURISM DEVELOPMENT IN HAWAII

A Case History Where Macro and Micro Meet

by

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Definition

Where micro-marketing puts emphasis on profitability to the individual firm, macro-marketing has the layer focus of profitability of an activity, article, or service to society at large. The first, micro-marketing, accepts the automatic resolution of competitive conflict for societal well-being in Adam Smith's "Invisible Hands of God." Macro-marketers see the need for such public policy actions as exemplified by legislative intervention: anti-trust laws, environmental and consumer protection laws, and public utility regulation.

In short, any marketing that is merely micro in focus is now suspect. It need not be automatically in the public interest; it may require government or quasi-government participation. It becomes a matter of public interest, public concern, public policy.

The Development of Tourism in Hawaii

The development of tourism in Hawaii is a good illustration or case history of the significance of macro-marketing and a particularly apt example of the borderline characteristics of macro and micro when what starts out as micro may evolve into the larger scope of macro-marketing, where social planning may be in demand.

Aloha, Hawaii

Tourism evolved in Hawaii as a post-World War II solution to the fear of declining employment in agriculture and the military establishment.

Of course, there had been travel to Hawaii from its days as a sandalwood exporter in Clipper ships, from its days as a center for New Bedford whalers, and from the incipience of agricultural experiments in pineapple and sugar. It was sugar that killed the monarchy. That was too sweet to be left unstolen. Appropriately, the divinely sanctioned Sanford Dole and his cohorts appropriated or stole the Kingdom of Hawaii towards the last days of the 19th century.

Traveling, according to the present Librarian of Congress, began to change sometime past the middle of the 19th century. "It was the decline of the traveler and the rise of the tourist.... Thus foreign travel ceased to be an activity--an experience, and undertaking--and instead became a commodity. The rise of the tourist was possible, and then inevitable, when attractive items of travel were wrapped up and sold in packages (the 'package tour'). By buying a tour you could oblige somebody else to make pleasant and interesting things happen to you. You could buy wholesale... or retail."

The micro-compulsion to foster tourism was first the high fixed costs of railroads and steamships; later, the jet airplane. This forced widening the market beyond the handful of wealthy, or intellectual seekers of knowledge, to the "vacationing middle class, or at least, upper middle class. 'Going by railroad,' complained John Ruskin, 'I do not consider traveling at all; it is merely being sent to a place, and very little different from becoming a parcel.'"[1]

However, it is precisely because tours could be packaged and people could be sent as parcels that the entrepreneurs of Hawaii could see a need for banding together to promote and market this destination area. The micro interests were obviously shipping firms, hotels, retailers and restauranteurs. Private micro interests formed the nucleus of what is today the Hawaii Visitors Bureau (HVB). But, early in that active group--a branch of the Honolulu Chamber of Commerce--the macro interests became manifest. First, the state government was asked to help a little with the funding, then 50 percent, and now two-thirds.

From 1951-1976

The drama of the evolution of the significance of the visitor industry is demonstrated in the HVB statistics of 1951, when revenues generated represented only 5.5 percent of export income, or $28,980,000.[2]

Contrast that to 1975 with $1.2 billion in visitor-generated income. Compare the total of 105,546 visitors in 1951 with the over 3 million total in 1976. Eleven carriers and 280 crew members per day in 1951 resulted in an additional $8 million, bringing the then total to about $39 million!

More important still, the distribution of those tourist revenue dollars, even in 1951, foretold the approximate shares that would go directly into lodging (25.4 percent), food (32.0 percent), beverages (6.8 percent), clothing, gifts and souvenirs, photography, personal care, inter-island transportation, ground transportation, tour agents, etc.

It showed the revenue from direct employment to all manner of activity groups in the community. But in those days, no one talked much of "the multiplier effect," "the leakage from payments for imports like whiskey," nor the benefit-cost ratios diminished by the high costs of social services to imported laborers and their proliferating offspring. In those days, capital could be found to build a simplistic micro-marketing item such as a hotel or a tour bus. No one yet talked the grandiose language of "infra-structure" costs or environmental protection.

Tradeoff for Unemployment in Agriculture, etc.

The key focus was the technologically-generated unemployment in agriculture due to remarkable innovations in irrigation, fertilizer, insecticide, and picking mechanisms. The Neighbor Islands and even Oahu (Honolulu) were forced to send their children "out" to find work. The military were trimming down to the expectation of a peacetime operation.

Thoughtful leaders in business, banking, construction, and agriculture worried with the governor and legislature about the future of Hawaii and its people. Would this community revert to a set of ghost islands anchored in a mirage?

Hawaii Now

So serious is the issue of tourism for the continued well being of Hawaii that the last governor, John A. Burns, held a three-day conference of a full cross-section of the entire community. Almost 500 people attended. Out of that has grown a rash of proposed legislation with a macro-marketing tinge. The present governor, George Ariyoshi, has asked Dr. Thomas Hale Hamilton to again be chairman of an Interim Tourism Advisory Council.[3] It is noteworthy that the calibre and scope of Dr. Hamilton shows him one time president of the State Universities of New York, the University of Hawaii, and the Hawaii Visitors Bureau, and consultant to the Bishop Estate. So significant is the public interest in tourism development in Hawaii that we almost have a formalized anti-tourism wing of the Democratic party!

The Forecasters: or Why Tourism Development in Hawaii is a Major Public Interest

Informally divided between the Hawaii Visitors Bureau, the State's Department of Planning and Economic Development (DPED), and the major banks, the extraordinary need to forecast trends in Hawaii's major commercial activity now means:

1. formal contracts between HVB and DPED,
2. formal published research on a regular basis by the HVB and DPED,
3. formal published research on a regular basis by the two major banks, and
4. the same minds work on all facets of these.

The estimates of numbers of hotel rooms required, based on tourist numbers anticipated, changing average lengths of stay, and average percentage occupancy are forecast again and again. Now, particularly in the light of rising unemployment, above national levels to 8.7 percent - 9 percent, and the decline of capital for the construction industry based on the pessimisms of the early 1970s, there is serious public concern.

A recent forecast for 1975-1985 shows but one example by John Brogan of Sheraton-Hawaii when he was chairman of the HVB. The bankers' economists, former member of the Council of Economic Advisors to the U.S. Preaident, Dr. Thomas Hitch,[4] and Wesley Hillendahl,[5] are both advisors to this agency.

ANTICIPATED VISITOR GROWTH AND HOTEL OCCUPANCY 1975-1985

Year	Brogan Survey # of Visitors	Low # Rms.	OCC %	Med # Rms.	OCC %	High # Rms.	OCC %
1974 (act.)	2.79	39.6	80.0	39.6	80.0	39.6	80.0
1975	2.8	42.0	75.7	42.0	75.7	42.0	75.7
1976	2.9	45.9	71.7	45.9	71.7	45.9	71.7
1977	3.1	46.5	75.7	47.8	73.6	49.0	71.8
1978	3.3	47.1	79.6	49.8	75.2	52.3	71.6
1979	3.5	47.6	83.5	51.7	76.9	55.4	71.7
1980	3.7	49.1	85.6	53.7	78.2	58.7	71.6
1981	3.9	49.6	89.3	55.6	79.6	61.8	71.7
1982	4.1	51.2	90.9	57.6	80.8	65.1	71.5
1983	4.3	51.7	94.4	59.5	82.1	68.2	71.6
1984	4.5	53.3	95.9	61.5	83.1	71.5	71.5
1985	4.7	53.8	99.2	63.4	84.2	74.6	71.5

This chart shows an estimated rise in number of tourists from 2.9 million in 1976 (actual will be over 3.0) to 3.7 million in 1980, to 4.5 million in 1984, to 4.7 million in 1985. At the same time, a low estimate of the number of available rooms in hotels will rise from 42,000 in 1975 to 49,100 in 1980 to 53,300 in 1984 to 53,800 in 1985. On this estimate, occupancy rates will have risen from 71.7 percent in 1976 to 85.6 percent in 1980 to 95.9 percent in 1984 to 99.2 percent in 1985.

AVERAGE ANNUAL NUMBER OF EMPLOYEES IN HOTEL SERVICES

State of Hawaii*
(numbers in thousands)

Year	Number	Year	Number
1958	3.65	1967	8.63
1959	3.70	1968	10.59
1960	4.35	1969	12.54
1961	4.70	1970	13.38
1962	4.65	1971	15.55
1963	5.24	1972	17.79
1964	5.82	1973	18.95
1965	6.31	1974	19.19
1966	7.22	1975	19.0

1958-1966 + 97.8% Increase

1966-1976 +163.2% Increase

1958-1976 +420.5% Increase

NOTE: It is notable, perhaps, that the number of jobs- directly in tourism (about 67,000) almost equals the daily population of visitors in the islands (about 70,000).**

* First Hawaiian Bank Research Division Source: Department of Labor and Industrial Relations

** From editorial in Honolulu Sunday Advertiser, July 11, 1976 entitled: "Tourism Perspectives." Also to be noted, only 28.3% of jobs in tourism are in hotel services.

In this same report, it shows that the meaning of all these statistics on the employment picture is not sanguine. Over the next ten years, a minimum of 6,000 and a maximum of 9,400 new jobs must be created for the projected growth rate of local and immigrant population. The first figure is for home-grown population only.

The conjecture is that 48 percent of the new jobs must be generated from tourism, assuming that each new hotel room produces (directly and indirectly) about 1.7 new jobs.

With a 1975 base that each new hotel room would cost at least $50,000, the annual capital investment requirement in hotel rooms would be $84.7 million to employ home-grown people's jobs and $132.7 million to absorb both local and immigrant labor for the travel industry's 48 percent share of job generation in the state.

The report ends with a series of penetrating questions which reveal that a macro-marketing approach is a useful one:

(1) Is the market capable of providing for the necessary additional visitors?

(2) In a capital-short situation, are resort hotels a sufficiently attractive investment?

(3) Is it the function of the state to plan for the needed jobs only for "locals" or also for immigrants?

(4) Are the jobs to be filled primarily with full-time employees or with moonlighters?

(5) If most of the tourist-related jobs are taken by "foreigners," does this growth meet the needs of our people?

(6) Will the travel industry have to increase its share of total jobs above the 48 percent estimate? Can it? What else?

The Role of the Press

The media of Hawaii, some of the best in the nation, place heavy emphasis on all news of tourism, editorials, statistics from the entire Pacific, alternatives to tourism, education for tourism, dangers of tourism. Besides the major dailies, The Honolulu Advertiser and The Honolulu Star Bulletin, both the Pacific Business News and The Hawaii Observer, one a weekly and the other a monthly, make tourism development a constant issue of public interest and concern.

A virulent campaign of criticism should put all concerned on guard against unvarnished optimism about tourism development as the total panacea for Hawaii. Wrote Tuck Newport--editor--publisher of the Hawaii Observer (September 15, 1976): "Too much of what passes locally for 'planning' consists of extrapolating past trends into the future. For example, the number of visitors to Hawaii quadrupled between 1965 and 1975; therefore, our planners reckon, it is reasonable to predict that the visitor count will triple from 1975 to 1985. Little consideration seems to have been given to the fact that the numerical increase from 1965 to 1975 was less than two million while the projected increase from 1975 to 1985 is more than 8 million!" Yet, in that same article, he quotes a DPED forecast of population of 965,000 in the City and County of Honolulu by 1995. To generate enough jobs to support this many people, the Interim Report calculates that the annual number of visitors to Hawaii would have to increase to 10.9 million by 1985 and 16.7 million by 1995. Hotel room requirements for such a horde would require about 96,000 new hotel rooms on Oahu by 1995! Also notes Newport, "the cost of construction and financing (even when it can be obtained) has pushed the price of new high rise buildings up towards $100 per square foot."

Benefit-Costs Ratios, Aliens, and the Human Side

The Baumol Study of DPED proved that the visitors to Hawaii generated more income than cost to the state. We see a conditional set of Benefit-Cost Ratios where 20 percent, or 40 percent or 60 percent of the employees may be aliens, producing children who require schools and other social costs not excluding welfare. As the proportion of aliens rises, the benefit-cost ratios decline.

The population of Hawaii is made up of sets of minorities, some melded and some not mixed. There is no ethnic majority, unless you invent a split between orientals and caucasians. In such a case, the caucasians are without question "The Minority Group." Note the most recent figures available from the State Statistician:

	Non-Mixed	%		Mixed	%
Total:	510,225	73.5	Total:	183,441	26.5
Caucasian	145,104	20.9	Part Hawaiian	131,164	18.9
Japanese	220,716	31.8	Other	52,276	7.5
Chinese	34,068	4.9			
Hawaiian	73,287	10.56			
Filipino	9,981	1.44			
Korean	6,153	.89			
Negro	409	.05			
Puerto Rican	3,986	.57			
Samoan	6,500	.93			
Other	10,022	1.44			

This mixture of ethnicities--because no one is a dominant majority--produces two remarkable effects: (1) It makes for a beautiful and fascinating variety of faces (The Golden People of Hawaii), and (2) it compels the necessity of "the Aloha Spirit" (Aloha=Shalom=Hello, Goodbye, Love, Greetings, Farewell, and Alas).[6] Indeed, the people live by the necessity of toleration and live on it too. By procreation, Hawaii generates much of its own charm, charms, charmers.

In this island state of so few, on a group of islands anchored so far apart, the economic and social and population center is on the small island of Oahu with 87.9 percent of the residents civilian population and about 81.1 percent of total employment in the state, with an unemployment rate in 1975 of 7.6 percent (now 8.1 percent).[9] It is to be noted that mechanization of agriculture, particularly after World War II, reduced the work-force in sugar alone to one third of its pre-war size, while production increased 25 percent. Also, due to the efforts of the I.L.W.U. (the International Longshoremen's Workers Union), wages of sugar workers have risen from 19¢ per hour to $4.19, while the cost of living has increased 2-1/2 times.[10] Yet, as David Thompson points out, the effects of the marketing of tourism produce a symbiotic relation with agriculture: tourism preserves the green scenes, and ensures open space over and above golf courses. The I.L.W.U. is now interested in hotels--for its members to find replacement work from agriculture.

Benefit-Cost Ratios

Other background evidence of the job-creating tradeoffs, from agriculture to travel industry employment, may be found in the sharp reduction in the flight of young people from particularly the neighbor islands and the state as a whole. Also, the sharp increase in immigration of those from other lands (particularly the Philippines--about 50 percent of all immigrants) raises questions of benefit-cost relationships.[9] In this study, made by Professor Baumol of Princeton for the Hawaii State Department of Planning and Economic Development, the costs of education, hospitals, police, and other public services generated to support these people who could labor in the visitor industry, were scrutinized to measure if visitors spent enough to generate sufficient tax income to the state to offset such added expenses. The tentative verdict was O.K., but with the caveat that the net profit to the state (tax revenues) could narrow depending on the incidence and amount of imported working people. Hence, statistics such as given in the so-called Baumol Report show benefit-cost ratios based on 20 percent, 40 percent, and 60 percent immigrant labor, and for the five "best" and five "worst" categories of visitors. It shows a daily expenditure pattern (for pre-1970) by income groups, by age groups, by five geographical areas of source. While somewhat statistically muddled by the statistics it elected to choose from the Hawaii Visitors Bureau, it showed fairly high ratios of benefits.

Tradeoff For Decline in Agricultural Employment

The growth rate of agricultural employment from 1940-1950 was 0.7 percent. In the '30s, '40s, and '50s, there was a negative growth rate in the neighbor islands. From 1960 to 1970, the growth rate was 0.34 percent. From 1900-1970, the growth rates by island were: On Hawaii--0.43 percent, on Maui--0.74 percent, on Kauai--0.50 percent, in Honolulu--3.15 percent. There had been a great decline in the neighbor islands.

But the tourist business gave a new shot in the arm to the whole state, not so much for the old people but for young people, wives, moonlighters, and immigrants. Even where income from agriculture declined sharply in sugar workers families, there were no foreclosures on mortgages incurred before the shut down in Kohala because wives and children were employed at the Mauna Kea Beach Hotel.

No Island Is The World

The Gompertz curve makes evident that "trees do not grow to the skies." There is no such thing as limitless growth. But, the macro-marketing efforts in Hawaii demonstrate over and over again that the tourist business is a life saver. While it shows the reflected impact of the general economy of the world, particularly the impact of recession on Japan and the United States (whence comes approximately 11 percent and 87.9 percent respectively of total visitors),[10] there is also evidence that it has a certain persistence. The growth rate of tourism--with its ups and downs--is well depicted in a recent report of the First Hawaiian Bank.

In that article, Dr. Thomas K. Hitch points to the newest HVB statistics: Visitor arrivals were up a healthy 11.2 percent over the same first four months of last year; April alone is up 31.2 percent; after a 5.9 percent growth in 1974 and a 1.5 percent growth in 1975. These are, as Dr. Hitch says, "heady statistics." The recession is over (at least in the U.S.), the consumers have confidence and cash to travel again, and the Bicentennial historic attractions have not lured all vacationers to Valley Forge instead of to sunny Hawaii's beaches. Visitors to Hawaii have numbered more than a quarter of a million in every month in the first third of the year. This is also the first time that more than a million visitors have arrived in the first four months. Hawaii should pass the three million visitor mark this year. The average daily visitor count of 71,000 so far this year is almost double that of only five years ago. The neighbor islands are getting a good share of the visitor upturn. In the first four months of 1976, 64.2 percent of all westbound visitors visited the neighbor islands. The growth rate among the neighbor islands, however, has been uneven.

Construction, Manpower, Education--Uncertainty

As we have seen in the recent recession, travel can be seen as a luxury, and hence, a postponable expense. For that reason, among others, it is an uneasy safeguard for developing countries seeking an offset to declining agricultural and other raw material exports. Because it can be a generator of income, even foreign exchange income, it is a genuine basis for hope for an island people with an Eden-like climate and an Aloha spirit that remains sincere and untired.

For that reason, micro-marketing--or the separate self-interests of each component firm in the travel industry--can never alone be enough to preserve and promote this industry.

Macro-marketing Management

A new term presented by Zif and Izraeli is evoked because the product or service becomes too important as a matter of public interest to be left to Adam Smithian entrepreneurs alone. While Dov Izraeli's paper, entitled "A Central Marketing Authority--The Case of Israeli Marketing Boards," focused primarily on milk, and embraced 95 percent of all agricultural products, its objectives would not be inappropriate for public interest objectives for tourism development: stability of supply; and reasonable stability of prices, both for domestic users and for export, and in relation to an influx of immigrants and their useful employment. The producer influence mandates the macro-marketing manager (or board, such as the HVB, for tourism in Hawaii) to assure: (1) profitability, (2) productivity, (3) market development (domestic and export), and (4) social responsibility.

Here, "profitability" means a sharing of the fractions of profit with each participant in the stream of marketing, including improved quality at reasonable costs to the consumer, and return on capital invested by producers and distributors. The sub-objectives are stability of supply and prices, government income and costs (see benefit-cost studies); balance of payments issues, ecology, and even national defense policy.

The nature of macro-marketing management is due to the implicit monopolistic character of the product or service. Here, "the market place itself" becomes a member of the Board of Directors! This is because the objective is the larger profitability of the venture for the public interest, in contrast to the mere micro-viewpoint of profits to the firm.

The dangers of such an approach can be a degeneration into parochial politics, a decline in incentives to innovation, and a clinging to a status quo. That could be important when consumer interests are not heard and such a system degenerates into fossilization and petty perpetuation.

Measuring Performance: It is easier to measure micro-marketing performance than the effectiveness of macro-marketing effort. But that is not precluded any more than national income accounting. In that sense, the island region of Hawaii is fortunate in having a continuing survey of visitor industry performance as a daily, monthly, and annual feature of the press, the state government's DPED, the state's heavily financed contractor, the HVB, the major banks, and economists of the University of Hawaii, the U.S. Travel Service, the Pacific Area Travel Association, and those environmentalists and ecologist politicians opposed to tourism development.

In the glare of such sustained vigilance over tourism, one cannot use the slogan for an unnamed advertising agency: "Without witness, wit is witless." But one can see symptoms of the accelerating significance of a macro-marketing approach!

FOOTNOTES

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[3] Governor's Tourism Planning Advisory Committee, Report, January 1976, p. 26.

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[6] See Hawaiian-English Dictionary by Pukui and Elbert.

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MULTICAMPUS SYSTEMS OF HIGHER EDUCATION: A NEW ORGANIZATIONAL STRATEGY FOR KNOWLEDGE WORK

by

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Organizational strategies are critical to the effectiveness of how universities relate to their publics. The traditional organizational strategy of the period before the 1970s, which still serves many universities, is a single university, perhaps with a few branch or satellite campuses, serving students and their families in the region in which the central campus is located. Louisiana State University, University of Houston, University of Minnesota, Iowa State University, and University of Colorado continue institutional-centered structures, processes, and habits even though the publics interested in their performance have multiplied to include students, the student's family, the employer, the legislator, the taxpayer, and the citizen.[1] Today, instead, it is the multicampus university that has become a more effective organizational strategy to confront the unsteady state imposed upon higher education by its publics.[2]

The University of Wisconsin System, for example, governed by a single board of regents, president, and central administration, is the result of a 1971 merger between two Wisconsin university systems which were in turn the result of mergers, consolidations, and other integrating strategies during the 1950s and 1960s. Also the University of North Carolina System is the result of successive combinations that have culminated in a statewide university system governed by a unitary board. And the same process of regrouping institutions of higher education within multicampus systems has taken hold in the California State Universities and Colleges, the University of California, University of Illinois, University of Missouri, the City University of New York, the State Universities of New York, and the University of Texas. Also a number of states, e.g., Alabama,[3] are considering whether commissions of higher education should now give way to more formal organizational structures which merge once independent universities, state colleges, and community/vocational colleges into multicampus systems.

To some extent this drive toward a multicampus organizational strategy is the result of state government's desire to "save" money, or at least to forestall the rate of growth in state revenues spent on higher education. Governors argue the cause of university merger before legislators and citizens as a way to eliminate "unnecessary" course and program duplication and hence as a way to reduce state expenditures for universities. This is a mistaken approach and raises unexpected desires which the newly merged system cannot fulfill.

Equally common is the expectation that a newly established multicampus system can immediately amputate one of its constituent universities by closing it down. Few public officials seem to realize that an organizational strategy is not performance itself, but simply a better way to include the concerns of the public with those of the faculty in the governance of higher education. The wrong reasons for establishing a multicampus system and the wrong tests for measuring its effectiveness are harbingers of conflict between state government and the newly merged university system.

Nevertheless, governors and legislators are right in judging they no longer can deal effectively with multiple and competing claims from multiple and competing universities. "Trade off" political decisions result, and budgetary and programmatic escalation almost inevitably follow. They would be right if they saw the goal of the multicampus system not as one of reducing costs, but of increasing educational services -- i.e., within the same cost frames and by reducing competitive (perhaps unnecessary duplicative) programming; achieving mission differentiation and therefore containment of aspirations; and inducing more flexibility of response potential (through substantive faculty retraining efforts) than is possible to single, independent universities. The danger is that in seeking quick cost savings, the potential for improved service may be squandered. And an organizational strategy of great merit would be discredited not only in the eyes of the faculty, but also in the eyes of the newly activated publics who hold such high regard for change in the organization of higher education.

Thus, once the average citizen becomes aware that there are multiple boards of regents, a state board of education, and a commission or coordinating council on higher education all seeking to govern universities and colleges in the state, his common sense tells him the time has come to consolidate these groups into one governing board. Also, once legislators and state officials come to realize that anarchy threatens the halls of government when every university president within the state lobbies individually for more public revenues to support his institution, then they too see the political wisdom of letting these money battles be fought within the higher education family rather than outside of it. And once students, their families, and alumni observe a budgetary review session with the knowledge that the higher education fund has ceased to grow, they realize how vulnerable one university -- particularly the research-oriented, internationally-acclaimed institution -- is to being pecked to death by others with different (and perhaps louder) claims on educational trust funds and general state revenues. To find a better way to sort out claims against the universities many public groups feel pressure for change in how universities are organized to make their requests for state revenues.

At the same time faculties feel uneasy about their objectives. The tasks of the public university are growing--from educating the young adult to include training the employed middle-aged worker--and the related changes are forging new relationships among university faculties and between them and their several publics. Today's universities are increasingly complex and diverse. The traditional single-university organizational strategy no longer is adequate to serve the higher educational needs of the state. New realities are present and hence new design principles are needed. In this article, I try to suggest how a multicampus organizational strategy can be implemented for the benefit of higher education and its active publics.

The traditional strategy vs. present realities

There are several ways in which the single public university organizational strategy is ineffective today. Some of these are as follows:

1. Given a state government requirement that 25 percent of the full cost of higher education be covered by tuition, when enrollments decline a single, public university cannot cut its tuition rate as a pricing strategy to turn the enrollment slide around. However, one university within a multicampus system can do this so long as the tuition received at all universities meets the 25 percent test. Tuition at two University of Wisconsin System Centers was reduced; their enrollments then increased to acceptable levels; and their budget base was not seriously imperiled during the trial period.* Although politically very difficult to sell, differential pricing is an important policy option open to multicampus systems.

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*Although this tuition experiment worked, it did not continue beyond its initial period for it ran counter to a general state impulse to increase tuition at both university and vocational institutions.

The organizational problem concerns foregoing investments elsewhere in the system by subsidizing units in trouble, thereby giving them time to overcome long-term difficulties.

2. When enrollments decline and state-imposed enrollment funding formulas operate on the downward side, a single university must return revenues to the state, decide whose salaries to cut, which programs to eliminate, and where to reduce expenditures. On a short-term basis only the multicampus system is able, as the University of Wisconsin System did, to spread the pain of retrenchment over many institutions rather than see one university disfigure itself as it sought to comply with the law. Such internal fund transfers do protect individual universities from major disasters that result from unusual enrollment funding formulas.

The organizational problem concerns taking funds from relatively well-off units and giving them to the less-favored units so the latter can overcome short-term difficulties without undue disregard for faculty rights under the guidelines of the American Association of University Professors.

3. For as long as we can remember, the university has been a single-market: education of the 18-22 year-old adult. Attempts at bringing the employed middle-aged worker into outreach educational programs are unsuccessful because the departmental faculty fail to perceive the unique characteristics of this new market, cannot provide the necessary resources, and are unable to retrain themselves to deliver the product at the demanded time and place. Such faculty efforts at renewal within their specialized discipline fall short of what is needed to be done in the way of human resources development for faculty members. By contrast, the multicampus system is able to free up resources so that investments can be made in pre-selling this new market and in retraining a cadre of professors to do the appropriate tasks. Such diversification is much easier within the framework of a larger

organizational strategy. It is now being attempted in Wisconsin and New York.

The basic organizational problem concerns adapting a labor-intensive industry whose employees are professionally trained teachers and self-directed researchers to the needs of other professionals and the public-at-large who seek continuing education in diverse fields.[4] It goes beyond traditional faculty renewal efforts and enters into retraining faculty members for expanded service to the community-at-large.

4. The single university seeks to be a comprehensive doctoral institution. By contrast, the multicampus system throws cold water on the dreams of faculty and wakes them up to the fact that no state -- not even the richest -- can afford Ph.D. programs at all locations where there happen to be universities. The University of Illinois constrains the demands of its Chicago Circle faculty for doctoral work, while the University of Wisconsin System limits its second doctoral institution, UW-Milwaukee, to only those Ph.D. programs that fit its urban mission. The remaining 11 four-year institutions of this latter system are called the University Cluster and permitted to award the Bachelor's, Master's, and Specialist's degrees. In truth, mission differentiation is possible only within a strong multicampus system of planning and governance for the overriding impulse of autonomous institutions is for growth and comprehensiveness.

The crucial organizational problem concerns the distribution of mission entitlements on an equitable basis throughout the multicampus system.

5. The single university tends to lack enough comparable data and information to make good technical decisions. The multicampus system develops central data banks which are available to individual institutions for more informal decision-making. These data banks are available for academic planning, program review, and budgeting.

The organizational problem concerns access to information and the use made of it by central administration and the universities within the system.

The academic administrator is called upon to cope with these problems in light of contemporary new realities. The single university organizational strategy offers little opportunity. The multicampus system organizational strategy provides more opportunity for understanding these new realities and resolving these problems.

A new organizational strategy

The multicampus system organizational strategy actualizes difficult, complex, and vulnerable design principles. Although better than the single university strategy to handle present day realities, this new strategy is not trouble free. Yet it is the best we have to encourage a large number of relatively autonomous universities to work together towards a common goal and under unitary governance.

The relevant systems strategy combines two key organizational design concepts, team organization and simulated decentralization, mixes these with important centers of power outside the university system (state officials, consultants, accreditation teams, and federal officials), and produces a cost-benefit return more widely understood in the state.

Team organization.[5] A group is set up to complete a specific task. For example, a System Planning Task Force together with its institutional reference groups and ad hoc consultants from several state agencies completed in a thirty-day period a report on "Reducing the Scope of the University of Wisconsin System." The key public policy issues of access, quality, cost and campus size, variety of educational options, and regional development were addressed; criteria and procedures for phasing institutions down and phasing them out were discussed; and simulations of these actions and their consequences for the public were carried out. These became the basis of the System president's report to the Board of Regents and the Governor on what the University of Wisconsin System could do in the short run and in the longer run to meet a new set of public policy goals which would terminate the state's historic commitment to open access to higher education for all its citizens.

So this multicampus system lives under a "2 + 2" academic planning and budgeting cycle. The System and its institutions guarantee to educate a minimum number of students at a specific quality level for a fixed amount of resources in a particular biennium and a different number of students for a different amount of resources for the second biennial period during the forthcoming four-year period. From this plan flow enrollment ceilings at all institutions, the use of System dollars to fund critical faculty retraining efforts, and the reallocation of resources within institutions to fund new academic programs.

Then there are faculty task forces to study the future prospects of the professions, teams of central and institutional personnel to review the introduction of proposed new programs and the suspension of high-cost low degree output existing programs, and budget working groups to develop the fiscal impliations of faculty retraining efforts. All groups are made up of central and institutional personnel who come together to deal with the on-going permanent needs of the multicampus system. Their members continue as resource people and in-house consultants to the president and his central administration, to chancellors (of the units) and their local administrations, and to others within the System as the need arises.

Simulated decentralization.[6] For classical academic governance reasons, the multicampus system seeks to keep the locus of decision-making as close as possible to the site of implementation. Their responsibility for and capability to carry out decisions are logically joined. Upon these twin efforts at delegation it is necessary to impose statewide planning considerations as boundary conditions. These constraints are expanded, modified, and altered as responses to pressures from constituent universities and their active publics.

Yet too the multicampus system imposes an impulse to centralize upon these once independent universities which continue as large kingdoms of reserve decentralized power ready to check, stall, or hinder the achievement of system goals they consider detrimental to their particular interests. Within these realms exist semi-independent baronies whose quest for larger medical school budgets, new veterinary schools, additional MBA programs, and fourth generation computer complexes crosses campus lines and whose search for increased power vis-a-vis other local interests allies the former with congeries of teams, ad hoc power blocks, and other groups in and outside the system.

In a perpetual state of contention, the multicampus system is too big to be centralized and too integrated to be decentralized. Only concurrent majorities are sufficiently strong tomake new policy. Hence, multicampus systems opt for simulated decentralization. Separately budgeted organizational units (universities, colleges, schools, and departments) are set up. They are accounting fictions cloaked with the ermine of transfer prices and the crown of overhead allocations. Their ledger sheets hold the orb of profits and losses (i.e., social benefits and economic costs).

Under simulated decentralization, the multicampus system may be made into a market organization that must show results on a quarterly, annual, biennial, and "2 + 2" basis. Productivity costs may be required of it while inflation tears the meat off its "bare-bones" budget. Carried to the extreme, each academic program could be costed out in terms of faculty and administrative time expended, measured against some norm (the result of some casual observation made years ago), and forced to change or die. Performance and the "bottom line" become the prayers which academic administrators tell on their beads as they seek that all important breakthrough in presenting the multicampus system's story to state government.

But it does not have to be. Simulated decentralization could be the road down which the multicampus system, its kingdoms, and baronies travel along with their allies, friends, and acquaintances from the state as a whole. For example, during the preparation of the "Scope" study, faculty from the University of Wisconsin System and officials from state government met to prepare a report outlining the economic and fiscal impact of closing one or more university institutions in the state. Different groups of university personnel, state officials, and local citizens participate in such interstate agency activities as the Wisconsin Manpower Council. All these joint efforts are initiated by the needs of the situation rather than by traditional organizational principles and are held together by a common goal -- to determine the appropriate cost to the state of closing a campus, to develop manpower policy for the state. Within the boundary of statewide planning needs established by state government and the multicampus system, local universities are free to take the responsibility for maintaining student access to quality academic programs whose costs are within the bounds of reasonableness which are based upon comparisons made among system campuses and equivalent national institutions.

Simulated decentralization provides the opportunity for multicampus systems to work out the tensions between the claims of statewide planning and the claims of decentralized decision-making without the end result being political trade-offs which result in the inevitable budgetary and programmatic escalation.

System strategy.[7] The successes of the policy proposing groups in the multicampus system are based not on tasks carried out nor on performance achieved, but on relationships established among faculties and administrators of the institutions and the system as well as between them and their publics. Although almost no one fully understands what all others are doing, their individual and common successes depend upon a good supply of comprehensive information. The multicampus system must establish a dynamic balance between the availability of useful information and the ability of ad hoc groups and administrators to use these data effectively in the management of the system and its institutions. Such complexity of tasks, performance, relationships, information, and decisions means that a system strategy is less disruptive than a single university strategy to maintaining a feeling of good will and trust between the university community and its publics.

Let us conclude with a summary of how these nine multicampus systems of higher education are carrying out their new duties.

1. All are involved in academic planning. These plans "explore options and alternatives among campuses on the basis of realistic demographic and fiscal projections and are subject to continuing analysis and revision."[8] Access to planning information is available to all for them to make their individual and collective judgments.

2. All review academic programs, and inquire as to whether they are appropriate given similar programs elsewhere in the system and supporting

programs at the requesting campus, whether the campus has the faculty and library resources necessary to support the program, and whether the campus can reallocate its resources to accomplish its new programmatic objectives.[9] Entitlements to plan -- i.e., early warning notices -- are required documents as mission and program entitlements are divided equitably among institutions.

3. All use budgets to make academic planning and program realities, and to reduce the short-term burdens of one campus by shifting funds among campuses.

4. All are laying plans for improving regional coordination, for introducting nontraditional education, for retraining and relocating faculty, and for assisting students in finding their way through the maze of universities, colleges, departments, and programs. Here the central administrations of multicampus systems serve best as catalysts of innovative thrusts and as independent evaluators of campus progress. These systems are doing their job if they are stimulating invention, adaptation, and change among faculties to the needs of society.

The marketing management opportunity

The multicampus system organizational strategy affords the university the opportunity to renew itself on a timely basis sheltered from the demands of publics who want change at a pace so fast that it could alter the university's historic commitment to the discovery and transmission of knowledge from generation to generation.

For faculty and administrators, the multicampus system gives them a chance to think through their objectives once again, offer products and services likely to be well received by traditional and new markets alike, and design a new series of organizational templates that will help them achieve their goals more efficiently. Such reassessment of societal needs offers opportunities to consider new types of product delivery mechanisms (joint MBA programs) and the application of promotional techniques reasonable and appropriate to the circumstances of selling the value added of further higher education (the employed adult worker). Managers have only just begun to think through the implications of applying market techniques and practices, which were developed for the private sector, to not-for-profit institutions such as a multicampus system of higher education. This is the challenge for the future.

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THE GREAT MARKETING GAME:
Theory and Practice Applied to Post Secondary Education

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Eugene, Oregon

Introduction

In this paper, I am attempting to provide my synthesis of what is marketing and what are its limits. I introduce game theory, distinguish between agents and principals, and suggest we recognize the importance of conflict for a restatement of macro-marketing theory. Central to any study of macro-marketing is the broader base of the contrasting ideas of equality and efficiency. Having established the paradigm, I apply it to post-secondary education; in that application, I draw heavily upon research I complete earlier. The final section concludes with policy recommendations.

There have been many definitions of marketing over the years, none of which seemed truly appropriate and encompassing. The American Marketing Association definition is far too narrow; Levy & Zaltman (1975: p. 126), a bit too broad.[1] None of these definitions attempted either to define marketing in terms of human behavior and roles or to consider game theory as a factor in the definition. Even though Kotler (1976) came very close, it was necessary to modify his definition to obtain one more operational. And so, by adding here, subtracting there--synthesizing the marketing definition mix--I offer this definition:

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*Bill Parks and Mary Ann Wish were most helpful in clarifying and defining the ideas presented in this paper. Any errors, of course, are mine.

MARKETING IS THE STUDY AND PRACTICE OF THOSE HUMAN BEHAVIORS IN WHICH RESOURCES COULD BE AND/OR ARE EXCHANGED.

Like Kotler, I see change requiring:

1. That there be at least two parties,
2. That each party has something that may be useful to the other;
3. That each party is capable of communication and delivery; and
4. That each party is free to accept or reject the offer.

Conditions helpful to the exchange, but not absolutely necessary, include:

5. That each party has relatively equal power;
6. That each party has relatively complete information; as well as
7. That a number of alternatives to this particular exchange are available.

These exchanges may involve goods, services or labor.[2]

Typically, the desire for exchange is precipitated by some felt need. That need, in turn, results in an interaction to fulfill it. Boulding has suggested that humans interact in three basic ways -- force, exchange and love.

Marketing is focused on exchange transactions in which a quid pro quo, stated or not, is involved. <u>But</u>, even in that aspect of human interaction, there are different levels of exchange. We have already noted that there must be at least two parties involved if marketing is to occur, and the parties have something to exchange, can talk about the exchange, and have the freedom to accept or reject it. We have at a minimum a "user" and a "seller."[3] Let us look at a diagram of possible exchange relationships. Recall that exchange is freely entered into.

TABLE 1

		SELLER (BENEFITS)		
		Receives All	Receives Partial	Receives Nothing
USER (COSTS)	Pays More	1	5	9
	Pays All	2	6	10
	Pays Partial	3	7	11
	Pays Nothing	4	8	12

The marketing domain is in cells 1 through 8; cells 9 through 12 may be null because a rational seller would not enter into an exchange without a return. There are externalities in the production and/or consumption of many of these goods which are seldom reflected in the price paid by the user.

Some of the interesting exchanges are those that occur in cells 4 and 12, where the user pays nothing. Here, we have the child in the free public school. Here also are the health insurance plans many of us have that allow us to treat medical care as a free good. Volunteers may be viewed as free goods. In certain labor markets of the mid-seventies, there are some buyers of labor who are able to get volunteers to work for weeks or months for nothing but the experience. (Many of the experiential education programs put young people into the labor market doing jobs that might be very useful, but which cost the employer nothing. In Eugene, Oregon, for example, there is a student-run experiential program that gives academic credit to some 2,000 students who volunteer an average of ten hours per week in the schools and social service agencies.)

Persons who want to enter into the marketing game with libraries find some interesting anomalies. The perception of libraries both by sellers and users as document warehouses puts the library clearly in cell 12. Here, both user and seller receive nothing. This may explain why libraries seldom function as the primary information retailer.[4] A similar point is made by Tucker (1974: p. 33):

> "Kohl, Goodman, Herdon, and many others echo the complaint and have demonstrated more successful educational methods to which marketing seems little more than periperal, since those methods are widely resisted by the educational channel captains who might promote them."

Tucker, though, ignores the market structure of the education industry where the user pays nothing and the seller receives only partial or no benefits.

The resistance to marketing procedures in education is perhaps partially explained by Leibenstein (1976).[5] Leibenstein clearly delineates the difference between principals and agents and shows that many exchanges take place between agents and that agents may behave differently than principals. He points out that large firms are composed entirely of agents, and that much household economic activity is carried out by agents acting for principals.

Leibenstein explains it (p. 161 ff):

> "Legally agents act in the name of their principals, but nothing forces them to have the same interests. Consider a simple three-person case. The actors are principal A, agent A_1 (an agent of A) and principal B. If A and B carry out an exchange, we might expect both to gain thereby, but a transaction carried out between B and A_1 contains three possibilities: (1) A_1 has the interest of his

principal in mind so strongly that A and B both gain; (2) A neither gains nor loses, but B gains (A_1 is happy to oblige B as long as A is not injured); (3) A_1 may oblige B despite the fact that A is injured, as long as the principal cannot control or check fully on the specific transaction. Result: once agents enter the scene, there is no need for both parties to gain in order for transactions to take place. Because agents usually cannot appropriate to themselves the gains due their principals, there is an incentive for them to be risk averse where the principals are not, or in cases where the agent would not be risk averse were he acting in his own behalf as principal. The possibilities for non-optimal agent behavior expand enormously if we think of an hierarchy of agents..."

From this, Leibenstein concludes that a meaningful analysis must begin with the actions of individual actors and must include less than maximizing behavior as well as use game theory as the underlying foundation.

Some Game Theory Contributions to Understanding Marketing

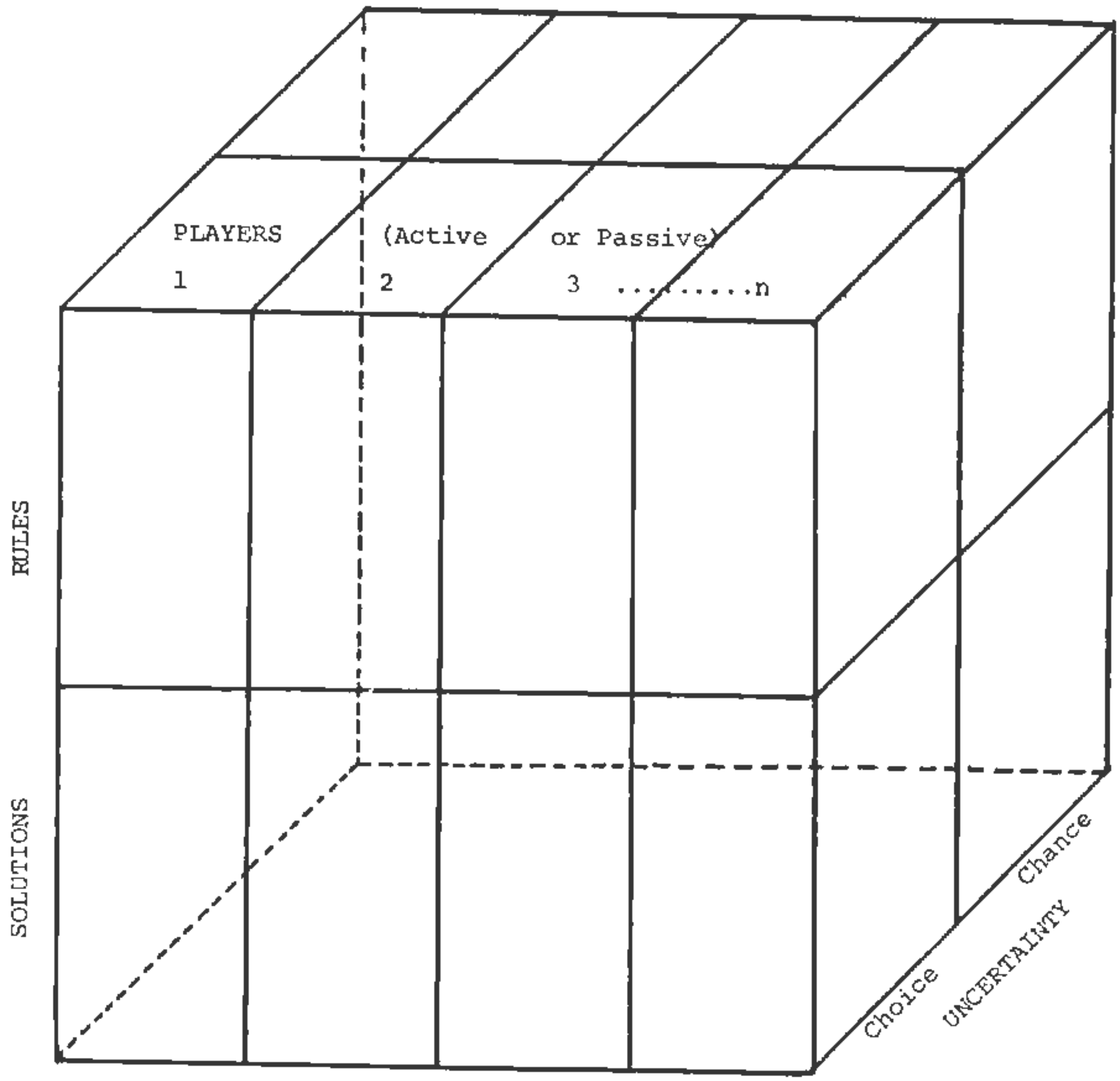
John McDonald (1975) explains how game theory made much more sense to him than any of several alternative explanations for business behavior. (He implies that one can observe any game in which a transaction or exchange is involved in three dimensions--as shown in Chart 1.) (Remember, games are models of the real world.)

In a market or economic game, one can choose to participate or not. McDonald views consumers as passive players of economic games; that is, they make no choices beyond entering the game or staying out. Some would contend that the situation is and ought to be changing and that consumers are becoming active game players and no longer are the docile actors they once were.

There is uncertainty in every game. The uncertainty comes both from "fate" or "chance" and the choices that might be made by the players. Much conventional economic and management decision theory analysis assumes that the consequences of one's choice(s) are known, thus making the correct choice; but, if the consequences of some choice(s) are not known, then the outcome cannot be predicted. This is frequently the case for the player of marketing

CHART 1

REPRESENTATION OF GAME THEORY APPLIED TO TRANSACTIONS



Parts of the Game

games. In games of exchange, the seller usually is working toward the solution of an adequate return for his effort.

Rules for games of exchange are often not spelled out, or the rules are interpreted differently for some players.[6] Also, the game players have very different knowledge levels. The more powerful choose the game they will play. The weaker play the game that others force upon them. It is not at all rare for one party to know more about that game than another party; the typical seller will know more about the buy/sell game than the typical buyer.

For example, Uncle Bob has sold cars all his life. He eats, sleeps and thinks cars. But, even though he knows a lot about them and may even "love" to use cars, he is not particularly emotionally involved regarding the sale of one car. Uncle Bob has received several days of training from the factory about the features and consequences of this year's models. Uncle Bob drives a different car each week. He will probably drive some 25,000 miles this year. He meets weekly with the service manager of his dealership, so he knows the kind of problems people are having with their cars. Uncle Bob subscribes to and reads five trade journals in addition to the _Wall Street Journal_ and _Business Week_. He talks to his banker daily. Twice yearly he goes to conventions of auto dealers. And, in the last five years, he has won contests sponsored by General Motors. As a result he and his wife have made trips to Spain, Hawaii and the Bahamas with other auto dealers. He knows his business. The consumer enters the dealership, is not quite sure of the brand or the model, hasn't considered whether or not credit is available, and does not yet know the worth of the old car. Who is going to win the buy/sell game with Uncle Bob?

Obviously, knowing other players in the game is very important for devising game strategy. One strategy may be appropriate when playing for fun with a family member or close friend, and a very different strategy playing a game with a stranger who may be more knowledgeable and powerful. The stronger and more powerful have been establishing the climate for even more consumption. Tucker (1974: p. 34) questions the theoretical and ethical implications when he suggests... "We ought to, in a systematic or theoretical way, discuss the relationship of unused time and talent to a variety of consumer wants," and "We ought to be trying to understand the relationship between consumption and human well-being."[7]

For too long, marketing specialists have assumed that marketing managers are the only persons in the exchange game worth talking to or about. Levy & Zaltman (1976: p. 127) suggest:

> "One always has some value position, of course, but it may be useful to marketing students to back off somewhat for greater detachment, to see the commercial marketing process as it is embedded in the larger marketing processes of society."

Those who study and practice marketing need to stand back and observe the game being played in the marketplace. They must identify the players and see just what positions and roles are being played. Certainly, the freedom as well as attitudes and behavior of those actors or game players depend heavily upon the resources available as well as upon who is providing the money.[8] That player with more resources obviously has more power and sometimes creates the rules. As the marketing scholar observes the marketing game, he will also see the obvious conflicts among the players.

Conflict is inherent in all exchange transactions. Among marketing practitioners, the fact that conflict is ignored by much of the marketing literature is implicit in the conference proceedings edited by Ferrell & LaGarce (1975) and is explicit in Levy & Zaltman (1976: p. 69 ff). These latter authors see conflict as inherent in life, and suggest that in each potential exchange there is conflict of several different types, the most transparent being "the subjective conflict in the dual role of buyer and seller" which occurs because we are all both buyers and sellers and so empathize with the other position in every transaction. Another is the "transactional conflict" when the buyer wishes to buy as cheaply as possible, while the seller wishes to sell as dearly as possible.

I have attempted to build the framework of what could be a viable theory of marketing. I have asserted that most of the popular definitions of marketing are too narrow or too broad. I have suggested a definition which is of few words and operational. In my definition that "Marketing is the study and practice of those human behaviors wherein resources could be and/or are exchanged," I believe that I am in good company with Bartels, Kotler and Hunt (1976). I have suggested that there are many exchanges in which neither the seller nor user pays the full cost. In that manner, I have attempted to account for the possibility of externalities. The discussion of sellers and users led me to a discussion of agents and how today many marketing tasks are performed by agents whose interests may diverge from the interests of principals. Game theory seems especially useful in explaining what goes on in the world of transactions, particularly when the roles of the players are considered. I ended the section by suggesting that conflict was inherent in all exchange.

A Digression into the Never-Never-Land of Efficiency and Equity

Now that I have established my view of marketing and its limits, it is important to indicate the value judgments that go into macro-marketing. Macro-marketing scholars may well be concerned with both efficiency and equity. The typical marketing practitioner is concerned primarily if not exclusively with efficiency.

> "American society proclaims the worth of every human being. All citizens are guaranteed equal justice and equal political rights. Everyone has a pledge of speedy response from the fire department and access to national monuments. As American citizens, we are all members of the same club.
>
> Yet at the same time, our institutions say "find a job or go hungry," "succeed or suffer." They prod us to get ahead of our neighbors economically after telling us to stay in line socially. They award prizes that allow the big winners to feed their pets better than the losers can feed their children.
>
> Such is the double standard of a capitalist democracy, professing and pursuing an egalitarian political and social system and simultaneously generating gaping disparities in economic well-being. This mixture of equality and inequality sometimes smacks of inconsistency and even insincerity. Yet I believe that, in many cases, the institutional arrangements represent uneasy compromises rather than fundamental inconsistencies. The contrasts among American families in living standards and in material wealth reflect a system of rewards and penalties that is intended to encourage effort and channel it into socially productive activity. To the extent that the system succeeds, it generates an efficient economy. But that pursuit of efficiency necessarily creates inequalities. And hence society faces a trade-off between equality and efficiency. Trade-offs are the central study of the economist. (Okun, 1975: p. 1)

So, too, can these trade-offs be an area of productive study for the marketing scholar.

Post-Secondary Education: A Macro Marketing View

In 1972 I undertook a study applying the macro-marketing ideas outlined above to the post-secondary education industry in Oregon. I took on this project because some students and one influential legislator expressed concern about the efficiency and equality of the system as it currently existed and was likely to develop in the future.

The Industry Overview

The post-secondary education industry is rather strange. Some "firms" are private profit-making ones; they compete with various "non-profit firms," some controlled by churches or self-perpetuating independent bodies, while by far the largest industry segment consists of very large "state and community" enterprises. The users of the services of these colleges pay different prices (tuition) for essentially equivalent services. A few institutions pay employees on the basis of their productivity with students, but most do not. In education, most employee sellers are agents, while the users are principals. The institutions receive money from the federal government for "campus-based student financial aid." The amount of money that the institutions have for student financial aid is, to some extent, a function of the skill of proposal-writing of the financial aid officer. Certain categories of users, such as veterans and young people whose fathers have died, are eligible for special subsidies from the federal government if and only if they attend college.[9] Costs are allocated largely upon historical precedent and some divisions receive much greater subsidies than others. Even stranger, the division which is most definitely greatest in demand in the seller's market is the medical school. Yet, contrary to free market theory of increasing the price and the supply of openings, the medical school has kept enrollment and charges low. In 1972, the effective cost of a year of medical school was less than $70. Further, attendance at medical school virtually guarantees the graduating medical doctor an income in the upper 10 percent.[10] The users and sellers meet in very different cells (refer to Table 1). This makes it difficult for buyers and sellers to play the game with the same chance of arriving at a "winning solution." Most of these factors contribute to the behavior of the sellers. That behavior makes efficient operation of the higher education enterprise of little concern. Let's look at some of the highlights from the empirical study made in 1972-73.[11]

Most often in the history of financing higher education, students' families have, as principals, had primary responsibility for out-of-pocket expenses. More recently, there has been increasing acceptance of state responsibility for ensuring access to post-secondary education for all citizens. Thus, both function as principals. The student invests time, money and opportunity costs as principal. Questions to be asked are how far each party's responsibility extends and for how long. Inextricably connected with these questions is the issue of the degree to which the recipient of education, as well as his family and the society at large, each benefit from the education.

Graduate education now appears to have been subsidized at the expense of undergraduate schooling. The reasons for this conclusion are, first, that graduate studies and higher income are related. The actual cost of graduate instruction, too, is higher than it is at the undergraduate level; nevertheless, the former is often priced no higher than the latter. Secondly, graduate students are likely to be more aware of the personal benefits to be gained from additional studies than are undergraduates, whose experiences are more limited. It follows then that graduate students should pay something nearer the full cost of their education without recourse to state subsidies--other than loans.

The emphasis may be partially accounted for by the desire of agents, faculty and administration, to attract those with more closely allied interests--graduate students. Graduate students also aid in playing the academic game, while undergraduates may be perceived as essentially counterproductive to the aims of faculty functioning as agents.

The family should pay for undergraduate education only in relation to ability to pay. State financed portable grants should be avaiable to those in need. In short, the primary state responsibility should be to equalize opportunity for all citizens while maintaining the vitality of a diverse system of post-secondary education.

That state responsibility includes also an effective information system on educational alternatives, costs, benefits and financial aids. Too often, high school graduates are unaware of the many career and educational alternatives available to them.

While state responsibility for college access needs to be expressed differently, we feel that it should definitely be expanded in the area of "lower division" vocational education. It simply is not fair to have a total absence of state aid for those attending the many private vocational schools while those pursing graduate degrees can be subsidized at the former's expense until the day they leave college. It is, however, completely congruent with the role of faculty agents in playing the academic game.

In summary, the state should be the primary insurer of accessibility to all undergraduate institutions, which includes public colleges, independent colleges and vocational schools. Where possible, students or their parents should help finance these studies. In addition, long-term state loans should be made available to any student who prefers or needs such a loan.

There is further state government responsibility which lies in the area of tuition. Open debate is needed in the legislature to establish proper tuition levels at Oregon's public colleges. Students at the public colleges pay very different prices for their education, when prices are expressed as tuition minus per capita student aid. Average out-of-pocket expenses for medical students are less than 1 percent of instructional costs, while the average freshman or sophomore pays above 20 percent of costs at public four-year colleges. The imbalance becomes more pronounced when the differences in earnings in later life are taken into account.

Issues on Which There Is Agreement

Wide agreement seems to have been reached on several propositions concerning the role of the family in the financing of higher education. First, there seems to be little disagreement on the historical concept that parents should help to the extent they are able. Second, it is generally felt that the student should contribute as much as possible through part-time work, although this work should not interfere unduly with his studies and other valuable activities of college life. (This is in sharp contrast to the practices in many other countries where most college students do not work.) Third, some form of aid should be available, either grants and/or long-term loans, to cover living expenses and college costs beyond the family's capacity. Finally, instructional costs should be distinguished from expenses for research and public service not closely related to instruction, and the latter should not be charged to families by means of tuition but rather should be financed by government funds and other grants.

Unresolved Issues

There are differences of opinion on four major issues: (1) who should be subsidized for post-secondary schooling and for how long; (2) the proportion of the instructional costs of colleges and universities to be met from tuition regardless of who pays these charges; (3) how should subsidies be delivered--primarily through low tuition charges or primarily by paying individuals so they can pay higher charges; and (4) how to achieve congruence between the goals of faculty operating as agents and the goals of the principals, taxpayers, students and students' families. These issues depend upon the funds available (which goes beyond the scope of this report) and upon societal preferences in relation to certain facts which will now be discussed.

Who Benefits from Post-Secondary Education?

In recent years, considerable effort has been made by economists to measure societal benefits as compared to personal or private benefits. Suffice it to say that the attempts to measure societal benefits have been largely inconclusive. But there is general agreement among economists that the largest proportion of economic benefits of post-secondary education comes to the individual. The table below indicates the average earnings related to years of schooling completed in 1969.

TABLE 2

1969 MEAN AVERAGE EARNINGS OF WHITE MALES 35-54
BY NUMBER OF YEARS OF SCHOOLING

1 or 2 years of college	$11,919
4 years of college	15,856
6 years of college	18,482
Dentists	27,960
Physicians	37,439

SOURCE: U. S. Bureau of Census, Census of Population: 1970 Subject Reports, Final Report PC(2)-8B, "Earnings by Occupation and Education" and Final Report PC(2)-5B, "Educational Attainment," U.S.G.P.O., Washington, D.C., 1973.

There is still controversy among economists concerning why people who have more education do better economically in later life. Certainly, it is some combination of inheritance, learned skills, screening out by schooling, limited supply conditions and luck. Taubman and Wales (1973), in a particularly thorough and well-developed article, claim that approximately half the salary differential from more schooling is due to the screening (i.e., degree-granting) process of colleges. Also, the Census figures show relatively little difference between salaries of those with 13 or 14 years of schooling, but the difference becomes quite pronounced at higher degree levels of schooling (i.e., medical and dental).

In spite of the humanistic aspects of college training, it should be realized that postgraduate training, even in the humanities, is job-related. It is vocational training which results in the student becoming a doctor, scientist, professor or some other professional--the kind of schooling which most often brings higher salaries. Recent trends suggest, however, that earnings differentials which have already narrowed substantially will continue to reduce the financial benefits of higher education.

Who Pays?

If state resources for subsidizing post-secondary education are limited (and they certainly are), then one can raise legitimate questions about heavy subsidization of graduate programs. First, though, one needs to know how much of the instructional costs are paid by student tuition and fees. In a society which applied the common-sense rules which we have described, one would expect that students at lowest division levels, where there is the least private benefit, would pay lower proportions of insturction costs. In the following two tables, we find the opposite.

Actually, Table 3 contains two surprises. First, we see that the more "sophisticated" the training, the lower percentage of instructional costs

TABLE 3

OREGON STUDENTS' CONTRIBUTION (TUITION AND FEES MINUS STUDENT AID) AS A PERCENTAGE OF THE COST OF INSTRUCTION - by Type of Institution, 1972.

	Lower Division	Upper Division	Graduate	Dentistry	Medicine
Community College	13%	---	---	---	---
Public 4-Year College	24%	19%	16%	13%	.5%
Independent College	72%	58%	36%	---	---

SOURCE: Calculations from HEGIS data for Fiscal Year Ending 1972 and Published Tuition and Fee and Financial Aid Information.

paid in tuition and fees. We also see that the percentage of instructional cost paid by the student at any level, i.e., "lower division," is very much a function of the type of school attended. However, part of this differential is explainable because the high-paid faculty, as agents, have succeeded in the classic Tom Sawyer game and have allowed low-paid graduate students and new faculty members to teach the large undergraduate classes. These highly-paid agents "accept the burden" of teaching a few graduate students.

For example, fees at the four-year colleges are considerably higher than at the community colleges. The public four-year colleges of the Oregon State System of Higher Education have lower cost of instruction than the community colleges in lower division (see Table 4, Column 4)--yet lower division students in the four-year public colleges pay almost twice what community college students pay for an education that is virtually the same.

TABLE 4

THE OREGON STUDENTS' AVERAGE CONTRIBUTION TO THE COST OF INSTRUCTION AT DIFFERENT LEVELS, AND AVERAGE EARNINGS OF INDIVIDUALS WITH THAT LEVEL OF INSTRUCTION - FISCAL YEAR 1972

	Average tuition & fees	Average student aid from institutions	Average contribution (out of pocket cost)	Average cost of instruction rounded to nearest $100*	% of cost contributed by students	1969 mean earnings of white males 35-54
Column	1	2	3	4	5	6
13 or 14 Years of Schooling						$11,919
Community college	$ 263	$ 68	$ 195	$1,500	13%	
Public college, lower div.	479	140	339	1,400	24%	
Independent college, lower div.	1,529	303	1,226	1,700	72%	
16 Years of Schooling						15,856
Public college, upper div.	479	140	339	1,800	19%	
Independent college, upper div.	1,529	303	1,226	2,100	58%	
18 Years of Schooling						18,482
Public college, grad. programs	600	140	460	2,800	16%	
Independent college, grad. prog.	1,529	303	1,226	3,400	36%	
Dentists	1,098	107	991	7,700	13%	27,960
Physicians	685	637	48	10,200	.5%	37,439

SOURCE: Columns 1, 2 and 4, HEGIS Data for Fiscal Year Ending 1972. Column 4 is allocated the HEGIS specific education related expenditures of $1,471 @ community colleges, $1,732 @ 4-year public colleges and $2,072 @ independent colleges on a basis used by Oregon Educational Administrators of a weighted average of 1:00 for lower division courses; 1.25 for upper division and 2:00 for graduate courses.

*See Footnote 12

On a rational statewide basis, it is difficult to justify the above discrepancies in either dollar costs of tuition or the differences in the percent of instructional cost paid by students. These differences, to a large extent, reflect the crises and needs of the past. While the solutions were rational and progressive at the time they were made, they now appear to be piecemeal and perhaps need redefinition or reorganization in terms of the present needs of the entire Oregon post-secondary sector.

For post-secondary education as a whole, the question of whether student tuition should be 25 percent, 40 percent, 80 percent or even 100 percent of instructional costs has never been resolved. However, there is a growing body of evidence that low tuitions in public colleges transfer wealth from the poor and middle class to the rich.

How Should the Subsidies be Delivered?

Scholars in the field seem to be near consensus that the subsidies for post-secondary education ought:

(1) to minimize the financial obstacles to college attendance;

(2) to improve the equity in the funding pattern, both in direct charges to customers, and in indirect charges to taxpayers so that agents act for principals and not for their own ends; and

(3) to retain and strengthen the vitality of the diverse system of public and private institutions of higher education.

Some argue that state subsidies should be delivered through institutions. Others argue that the subsidies should be delivered directly to citizens. The delivery of the subsidy is often, and frequently unknowingly, tangled up with the other two questions of who should be subsidized and what proportion of instructional costs ought to be met from tuitions. Regardless of any specific answers to the above questions, the delivery of subsidies is an identifiable political issue in which the efficiency and effectiveness of a diverse group of post-secondary institutions are of paramount importance.

There is conflicting evidence as to whether the subsidies would be used more efficiently and effectively if they were provided to citizens as we have proposed, rather than to institutions. Parent (1973) indicates that delivery of subsidies to individual citizens could be more effective in meeting the goals of equality of access; and, many economists argue that organizations are most efficient when they are in a competitive environment and survival depends upon success in the marketplace. However, others, including many university administrators, argue that universities are not businesses and therefore they can be most effective and efficient when they can plan and operate with the relative certainty of funds from direct subsidies, gifts and/or grants. Frankly, there is not yet any irrefutable argument or practical evidence of which way is the better one. To those who support the idea of subsidies to citizens, the "success" of the G.I. Bill seems especially telling. But that is not enough; because of this lack of irrefutable argument or practical evidence, we recommend replication of our 1973 study in other states couched in terms of exchange games, agents and conflict, with a concern for both equality and efficiency.

> "While appreciable differences in wealth persist, the real sacrifice in buying any asset--including a university education--is smaller for rich families than for poor ones. But the greater real sacrifice of the poor in buying higher education...is far less inequitable than a system under which the unprivileged working class is in effect compelled to finance the education of the well-off majority of students."
>
> \- E. J. Mishsn

Analysis and Recommendations

Marketing managers, as agents of institutions of "higher learning," will likely do all they can to continue their attempts for successful solutions to the existing game. They will try various strategies to induce continued enrollment among the existing heavy users. They will continue to press for more appropriations from the various governmental agencies that provide support. Certainly, college management will continue to accept any governmental support that lowers the out-of-pocket cost of the users. (For maximum gain to the principals, the marketing managers in the university game should attempt to resolve the differences among the taxpayers who want fewer increases, the students who see education in vocational terms, and the faculty agents who often view vocational oriented training with deep suspicion. One way of doing that is to move toward a system where the users pay the full costs, even though receiving subsidies, and the suppliers receive full payment.)

The individual actors who are the seller's agents in the state colleges and universities will continue to put out brochures like the "Low Tuition Fact Book" (1976) which argues very persuasively for continued high level of governmental support to the state colleges and universities. The booklet claims, in the best marketing management tradition of point-of-sale brochures, that we will all be better people if we continue to support even more consumption of low-tuition college. No mention is made of the downturn in demand for college grads. No mention is made of the other claims upon scarce resources. It is, in short, what one would expect from a marketing manager playing the buy-sell game. The agents who manage and work in the higher education enterprises are behaving in ways that further their own interests. They are in conflict with others, which is normal. It may be that the behavior discussed in the previous pages would be very different if the principals were to assert their interest. The principals are the students, employers and the general tax-paying public.

The user principals in the post-secondary education game are becoming more active players. They have formed lobbying and research groups; in addition, they argue for more student involvement in faculty promotion and tenure decisions, as well as opposing increasea in the price of college attendance. Some students have dropped out and others have chosen not to play the higher ed game.

Richard B. Freeman has studied the problem and says quite a bit about it in his title, The Overeducated American (1976). In a nutshell, he finds that the job market for college graduates has "gone to hell". He shows how and why the estimated rate of return for white college males dropped from 11 percent to 7.5 percent between 1969 and 1973. Salaries of recent college graduates have not kept pace with inflation (see Figures 1 and 2, following). Freeman claims that over 95 percent of the variance in college attendance can be explained by just two variables, "the income of graduates relative to other workers" and "relative employment opportunities."

Some agents for the taxpaying principals in the legislature are becoming aware of the likely inefficiencies and inequalities in post-secondary education. Several states have formed study commissions.[13] The federal government may be moving toward more subsidies to students and fewer for institutions. Okun suggests that:

> "...equalizing financing opportunities for higher education is one of the ways by which the nation can obtain more efficiency and more equality without sacrificing one for the other...." (1975: p. 82)

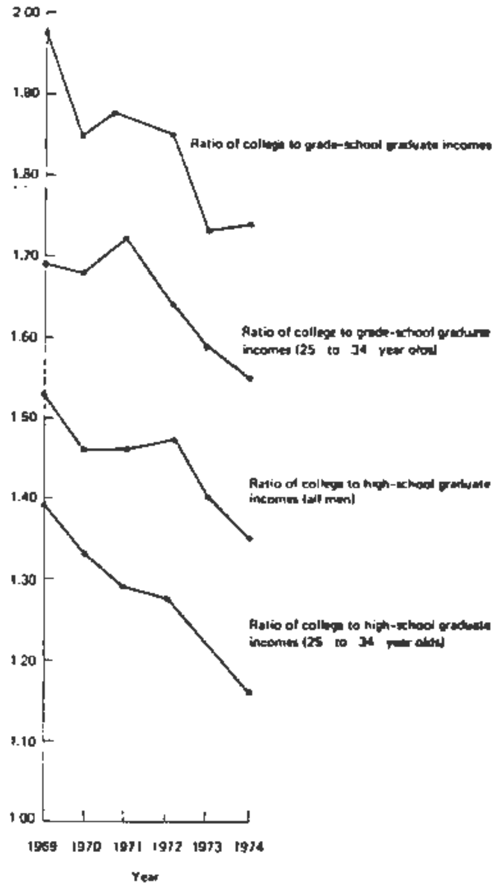


Figure 1 The falling relative income of year-round, full-time, employed, male college graduates, 1969-1974 (From U.S. Bureau of the Census "Consumer Income," *Current Population Reports*, Series P-60 Nos. 66, 75, 80, 92, 97, 101. Note: Incomes refer to the mean incomes of year-round, full-time workers).

SOURCE: Freeman (1976: p. 14)

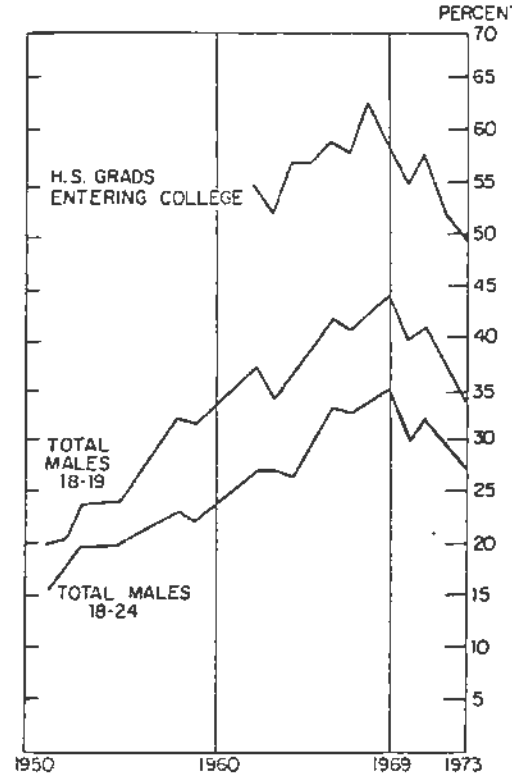


FIGURE 2

PROPORTION OF YOUNG MEN ENROLLED IN COLLEGE, 1951–73

Sources: For high school graduates, [28], No. 158, p. 50. For total males 18–19 and 18–24 years old, [18], Series P-20 (various editions).

SOURCE: Freeman (1975; p. 299)

SUMMARY

The paper began with a statement concerning the limits of marketing. The suggested marketing paradigm was centered around game theory as a way of viewing the world of exchange. Differentiating between agents and principals and recognizing the inherent nature of conflict was suggested as very useful. This macro-marketing scholar wants to make explicit the values and orientation guiding his work. In this paper, those values included a balanced view of equality and efficiency. The final section of the paper shows how the paradigm previously developed can be applied to the post-secondary education "industry."

FOOTNOTES

1. "Marketing is the interaction of those who want something (anything and those who provide something (anything)." When that definition is taken to a limit of those who want peace interacting with those who provide war, one can appreciate the absurdity of attempting to work with such a broad definition.

2. The idea that the study of marketing includes labor comes from W. T. Tucker (1974). This outstanding contribution has been misinterpreted by Levy & Zaltman and, according to the 1974 and 1975 Social Science Citation Index, was cited only once.

3. Here I am suggesting a taxonomy different from that of Hunt (1976: p. 21 ff). The dichotomy between "profit" and "non-profit" which Hunt relies upon is a cultural artifact. The behavior of marketing managers employed in retailing, electric utilities, railroads, and petroleum companies will be very similar within each particular industry, regardless of whether the company is "profit" or "non-profit." There will likely be more variance in the behavior of marketing managers across industries, and even more variance in marketing professionals working for government agencies such as the Federal Trade Commission or the Food & Drug Administration. In short, the practice of marketing has a lot in common with the practice of law: the professional marketing practitioner does what his client asks, usually with the proviso that it not be illegal.

4. See Wish & Wish (1975) for a statement on marketing implications of libraries as information retailers.

5. Leibenstein provides a new synthesis of considerable empirical research from the behavioral sciences, and then applies his synthesis for a restatement of economic theory. Another of his central arguments, which I have adopted, is that individuals are rational some of the time. He concludes that businesses do not minimize costs nor maximize profits, and that the current manner of regulating monopolies is likely to result in higher cost to the consumer.

6. The case of Mr. Nixon's friend, C. Arnolt Smith, multimillionaire chief executive with the U. S. National Bank of San Diego, is instructive. In July 1974, Mr. Smith was indicted on a multitude of federal charges concerned with diverting and misapplying about $170,000,000 in loans. In June 1975, Mr. Smith (who was then 75 years of age) was allowed to plead "No Contest" and was given a five-year suspended prison term and a $30,000 fine. Mr. Smith worked out an agreement with the court in July 1975 in which he was to pay the fine at the rate of $100 per month. The judge who sentenced Mr. Smith had been featured prominently in the news once before when he sentenced the first draft resistor appearing before him to 30 months in federal prison.

7. Recently, psychologists and economists have been working on these matters. Below is a chart from Page 32 of the August 1976 issue of Psychology Today. The chart shows that, for most people, "well being" increases as incomes rise, but it is different for the college graduate.

The chart comes from a work of Angus Campbell, et al, (1976). R. A. Easterlin (1975) collected thirty surveys covering nineteen countries to see if there was any association between reported happiness and the per capita income or consumption level. According to United States data, despite significant increases in income per household, the proportion of "very happy" seems not to have changed markedly, and perhaps to have declined as consumption level increased.

8. See K. W. Rothschild, Power in Economics, Penguin, 1971.

9. The amount of money available is not small. In 1972, the G.I. Bill and Social Security provided some $35,000,000 to Oregonians for post-secondary training (Wish, 1973(b): p. 87). Yet the entire state and local funds for post-secondary education (exclusive of the medical school) amounted to $132,000,000 (Wish 1973(b): p. 68).

10. "M.D. Means Much Dough"

SPECIALTY	NET (average)	GROSS (average)
Cardiovascular surgery (3)	$127,353	$203,435
Thoracic surgery (23)	113,629	183,535
Plastic surgery (20)	65,187	104,128
Neurological surgery (23)	61,867	151,951
Orthopedic surgery (90)	59,013	124,225
Gastroenterology (19)	58,490	228,307
Radiology (63)	54,169	99,048
Cardiology (33)	53,217	82,821
Ear, nose and throat (35)	52,116	91,993
Anesthesiology (84)	51,724	67,356
Allergy (12)	50,823	78,344
Urology (43)	50,111	75,883
Surgery (164)	47,160	77,910
Opthamology (72)	46,334	83,766
Obstetrics, gynecology (91)	45,085	78,461
Neurology (21)	41,937	61,368
Internal medicine (238)	41,737	75,616
Pathology (44)	41,356	51,826
Family Practice (216)	40,541	121,612
Psychiatry (68)	37,747	49,473
Dermatology (23)	37,112	60,371
Physical medicine (11)	35,601	54,159
Pulmonary diseases (9)	35,582	47,319
Public Health (14)	31,853	34,065
Pediatrics (76)	31,438	51,506
Child psychiatry (11)	27,543	33,181
AVERAGE	42,170	74,088

SOURCE: Reproduced from an article in Willamette Week, Vol. 2, No. 37, July 26, 1976 entitled "M.D. Spells Much Dough" by Richard H. Meeker.

Mr. Meeker gleaned his facts from a report published by the Legislative Revenue Office, State of Oregon. The figures listed reveal only 1974 income from their medical practices, and no other sources. The numbers in parentheses indicate numbers of physicians in each specialty who were 1974 members of the Multnomah County (Portland SMSA) Medical Society.

Among many interesting facts:

a. Gastroenterologists, Portland's "stomach men," had tax deductions of $170,000 apiece, and average net incomes of $58,000.

b. Neurosurgeons in other state urban areas have the biggest average net incomes, averaging $147,447, in 1974. Their average gross incomes for 1974 were $248,872 per doctor.

c. Medical specialists statewide average $80,000 a year in gross income, or six and one-half times the income of the average Oregon worker in 1974.

d. Based on the 1974 Revenue Office report, 3 percent of Oregon's physicians made taxable incomes of over $100,000. See also Sloan (1976).

In a related vein, the Oregon taxpayer contributes over $10,000 annually for the education of each medical student, compared to less than $2,000 for each freshman undergraduate and little, if any, to the young adult who does not go into higher education. (John Wish in "The Private Rewards of Public Education," Oregon Times, February 1974, p. 20).

11. This section is drawn from Wish (1973(b): p. 124-143). Much more detail on the facts leading up to these conclusions is available in that source.

12. "Instructional costs" equal the sums of HEGIS Statistical Summaries on "Instruction," "Departmental Research," "Library Cost" and "Operation of the Physical Plant." (These were lines 2, 3, 8, 9 and 10.) We then accepted the assumed cost differences by level of instruction developed by the State System of Higher Education. They estimate that upper division classes are about 25 percent more costly than lower division, and that graduate classes average twice as much as lower division. Costs of different programs were ignored.

13. See Braun (1976) for an account of a major study in New Jersey. A bill will be introduced in the 1977 Oregon Legislature calling for a major study commission complete with public hearings. Interest continues in the "Yale Plan" of Income-Contingent Loans for some of the more expensive post-secondary education. (See Johnstone, 1973.)

Meanwhile, the economists have been thrashing out the theory of transfer payments and subsidies. There seems to be a great deal of agreement that cash transfers made directly to individuals are more efficient than in-kind subsidies. The argument runs as follows: suppose that an individual wants to give a bundle of goods worth $50 to someone. The question is whether the utility of the giver and receiver is maximized with goods or cash. Assuming no emotional commitment to the gift itself, the economists say it is better to give cash. The reason is that, in the worst possible case, the recipient could buy the bundle of goods that the giver was planning to give. On the other hand, the recipient might find a better use for the money, a more preferred bundle. Thurow (1975: p. 195) suggests that:

> "Restricted transfers...spring from our individual societal preferences as to what constitutes the good society...the general economic case for cash transfers is strong enough that the burden of proof should always lie on those who advocate restricted transfers."

It is with these things in mind that some of us marketing scholars are now researching the implications of a birthright or cash grant to each young adult. That grant could be invested in any way to help get a start in adult life.

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