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Done in Sept
Q with letter

Nason

SEVENTH MACROMARKETING SEMINAR

University of Colorado
August 5-8, 1982

✓ = Ed board
Liked

Final Program

5:00 - 6:30 p.m.

Session I (Longs Peak Inn)

Shelby D. Hunt * *nr*

Ronald Savitt *nr*

John S. Wagle *nr*

Session Chairman: George Fisk

"The Macromarketing-Micromarketing Dichotomy: Taxonomical Model"

"Toward A Theory of Marketing Competition"

"Macromarketing: An Interface with Economic Philosophy"

10:00 - 11:45 a.m.

Session IIA (Business 227)

A. Fuat Firat

Kahandas Nandola

James G. Spalding, Jr. *nr* *George*

Darryl G. Waldron

Session Chairman: Marilyn Liebrez

"Marketing Theory and Macromarketing"

"Efficiency In Consumption"

"Social Marketing As Macromarketing"

"Discontinuity in Macromarketing" A Multi-dimensional Conflict Manifold"

10:00 - 11:45 a.m.

X Session IIB (Business 228)

Nikhilesh Dholakia *yes nr*

Andreas A. Falkenberg

→ R. Eric Reidenbach * *yes nr*

John R. Wish * *ok* *Needs more work* *last worth a try*

Session Chairman: Stan Shapiro

"Industrial Policy and International Marketing Effectiveness"

"A Political Economy Approach to Modeling Differences in Economic Cultures"

"A Thermodynamic Analysis of the Positive and Negative Macro Systemic Impacts of the Marketing Function"

"When Dr. Marx Read Dr. Kotler: A Dialectical Look At American Marketing"

1:00 - 2:00 p.m.

Session III (Colorado Room)

X Kenneth Boulding **

Donald F. Dixon *nr*

Ben M. Enis *nr* *maybe*

Stanley C. Hollander *yes?* *He will add a bit of sound*

3:45 - 5:15 p.m.

Session IVA

→ Michael Etgar *yes* *yes* *JM same subject JM paper data JM paper theory*

Michael I. Halliday *yes nr*

Ian Wilkinson *nr*

Session Chairman: Jim Carman

"Macromarketing: Research in Value Laden Areas" (tentative title)

"Marketing As Production--The Development of a Concept"

"Science Fiction or Positive Futurism"

"Sumptuary Legislation--Demarketing by Edict"

Session Chairman: **Bob Nason** *He will send both to us*

"Household Economics Approach to Change In Labeled Retailing" *So we can judge and*

"A Theory and Verities of Market-Place Behavior" *missed meeting session - didn't ask for comment as per agreement - I looked for them previous evening & missed - should up for formal but didn't have chance to communicate*

"Coordinating Economies and the Economies of Coordination In Marketing Channels: Towards A Theory of Channel Structure"

* Co-authors are shown on the title page of the paper.
** Invited paper.

Bob wants guidance as to how to convert into journal article

SEVENTH MACROMARKETING SEMINAR

List of Participants

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Mackerel marketing

by

Robert W. Hason

A colleague approached me the other day and said that he had just learned about the Journal of Macromarketing. "I've heard of journal proliferation, but isn't a journal specifically devoted to the marketing of macro going just a bit too far? Why not have the Journal of Squid marketing or maybe the Journal of Blowfish marketing? Lord knows, there are enough ink screens and hot air in the profession of marketing - especially among scholars."

I tried to explain what Macromarketing was, but he cut me off by assuring me that he already knew, as he had read the learned journal in question. "Macro marketing", he stated proudly, "is the effect of macro on the ocean, or on the world, for that matter; the study of macro systems - schools, spatial swimming patterns, social conduct and the like; and the effect of the ocean, man and others on the macro."

"By contrast", he continued arrogantly, "micro-marketing deals with the dyadic transaction between each individual macro and the individual predator - man, shark and the like. Now the micro-marketer often does not see or care about the big picture because he/she deals with the number of macro caught per time period and worries about such things as whether to use nets, hooks, teeth traps and the like. Strategy is most important and a lot of thought is given to the bait inducements (given competitor strategies) in combination with push or pull promotional

My colleague had really gotten himself worked up by this point. "Marketers perhaps can be excused for such intellectual excesses, as everyone knows that they are a little weak in the head anyway. But what is the excuse for the economists? A whole branch of economics devoted to macro? By what divine right do they think that they can manage the economy of macro such that the marketers can profit and the macro are not exhausted, all by increasing or decreasing rainfall or alternatively pulling the plug on the various oceans in some manner prescribed by Chicago? Others say that all will be just fine if the micro-marketers are left alone to follow the dictates of their own ingenuity. By the way, the sharks, at least, have been doing that anyway except for the increase of takeovers by competitors (men), who pretty much do what they want to as well. Some of the economists say that that is fine and others say the macro economy is becoming too concentrated. The point is that macro economists can't agree and the macro economy is a mess, that's plain to see. What's more, they have been at the game for a lot longer than the macro marketers."

My colleague looked decidedly pleased with himself and proclaimed that it was all a religion anyway, started by the famous Amos -- or was it Andy-- who pronounced, "Holy Macro".

"The Macromarketing/Micromarketing Dichotomy:
A Taxonomical Model

by

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At least three major, closely related, marketing controversies were substantially resolved in the last decade: 1) is marketing a science, 2) should marketing be "broadened" to include public and nonprofit applications, and 3) should marketing be "broadened" to include the societal consequences of marketing activities and systems? The controversies were both major and closely related because each had to do with the fundamental nature of the marketing discipline. Often briefly reviewing the three controversies, the present article will examine a major issue left unresolved in the debates: what is the nature of the macromarketing/micromarketing dichotomy?

The "is marketing a science?" controversy was explored by writers such as Converse (1945), Bartels (1951), Hutchinson (1952), Baumol (1957), Buzzell (1963), Taylor (1965), and Halbert (1965). The debate culminated in 1976 with a model, known as the "Three Dichotomies Model," which proposed that all of the problems, issues, theories, and research in marketing can be analyzed using the three categorical dichotomies of (1) profit sector/nonprofit sector, (2) micro/macro and (3) positive/normative (Hunt 1976). The "is marketing a science?" controversy was then analyzed by demonstrating that those marketers who believed that marketing could not be a science were implicitly (and unnecessarily) restricting the scope of marketing to its profit/micro/normative (managerial) dimensions. The discussion concluded that "the study of the positive dimensions of marketing can be appropriately referred to as marketing science" since the positive dimensions of marketing have the requisites of science: (1) a distinct subject matter drawn from the real world which is described and classified, (2) underlying uniformities and regularities interrelating the subject matter, and (3) intersubjectively certifiable procedures for studying the subject matter (Hunt, 1976, p. 28).

The tremendous increase in interest in developing marketing theory since 1976 provides significant evidence that the "marketing science" debate has been resolved in the affirmative. The American Marketing Association has held two special conferences devoted exclusively to marketing theory and, as of this writing, is planning a third. A careful analysis of the proceedings of these conferences shows the papers to be devoted to the development of theoretical structures which attempt to describe, explain, and predict marketing phenomena--precisely the province of marketing science (Ferrell, Brown, and Lamb 1979; Lamb and Dunne 1980).

The second controversy, that marketing be "broadened" to include public and other nonprofit sector organizations and social causes, was debated by Kotler and Levy (1969), Luck (1969), Ferber (1970), Kotler and Zaltman (1971), Kotler (1972), and Luck (1974). In a review article on public and nonprofit marketing, Lovelock and Weinberg (1978) conclude:

It is evident that nonbusiness marketing has come a long way in a relatively short period of time. The subject is taken seriously in academia, is having a growing impact on management practice in a diverse range of applications, and is contributing to general advancement of the field of marketing. These facts, we believe, justify our contention that public and nonprofit marketing has come of age. They in no way imply a lack of potential for future growth, improved judgment, or greater sophistication.

As evidence for their conclusion, Lovelock and Weinberg note that seven books or monographs have been published on nonprofit marketing and that a bibliography by Rothschild (1977) contains more than 600 references relating to marketing for public and nonprofit organizations. More recent evidence that nonprofit marketing has "arrived" comes from a study by Delene (1981) which concludes that nonprofit marketing courses "have been successfully incorporated into the curricula of a number of institutions and that enrollments in these

courses are adequate to warrant their continuation for students in business programs."

The third controversy focused not on the nature of marketing, per se, but rather, on what should be the emphasis of research in marketing. Should research be directed primarily at the (micro/normative) problems of the marketing manager? Or, should more attention be paid to the societal consequences of marketing activities? Lazer (1969) pleaded: "What is required is a broader perception and definition of marketing than has hitherto been the case-- one that recognizes marketing's societal dimensions and perceives of marketing as more than just a technology of the firm." Others who sounded a similar theme were Lavidge (1970), Takas (1974), and Dawson (1971) who deplored the fact that "the emphasis upon practical problem-solving within the discipline far outweighs the attention paid to social ramifications of marketing activity."

Research directed at the social consequences of marketing activities has come to be included in the macromarketing half of the "macro/micro" dichotomy. Marketers have responded to the pleas of Lazer, Dawson and others with an outpouring of research and publications concerning macromarketing (Furuhashi and McCarthy 1971; Wish and Gamble 1971; Kangun 1972; Berenson and Eilbirt 1973; Grashof and Kelman 1973; Webster 1974; and Moyer and Hutt 1978). There have also been numerous special conferences on macromarketing in the United States (Slater 1976; White and Slater 1977; Fisk and Nason 1978; and Fisk and White 1979); Europe (Fisk, Arndt and Gronhaug 1978) and Canada (Thompson, et.al., 1980). Further evidence that macromarketing has "arrived" is the institutionalization of the concept through the appointment of a section editor for macromarketing in the Journal of Marketing and the development of a new journal, The Journal of Macromarketing.

The increased emphasis on macromarketing issues has not been without controversy. There have been vigorous debates on what kinds of marketing problems, issues, and research should be denoted as "macromarketing." Smith and Konopa (1981) review the debate and conclude:

Our review of the semantic referents of the term macromarketing indicates the term was infrequently used until the 1970's. Its advent was unpretentious and without ceremony, and resulted from the need for a designation. By process of natural selection, macromarketing survived a number of lexemic alternatives, and throughout the 1970's solidified its hold upon the jargon of discipline. Clearly, there is a lack of concensus as evidenced by the multiple meanings of macromarketing and its relationship to theory.

The purpose of the present article is (1) to review the "nature of macromarketing/micromarketing" issue, (2) analyze the controversy by examining empirically the domain of the concepts "macromarketing," and "micromarketing," and (3) attempt to resolve the controversy by proposing a taxonomical model incorporating both macromarketing and micromarketing. Consistent with the perspective adopted by Fisk (1980) this paper approaches the "nature of macromarketing" controversy from a taxonomical rather than definitional perspective. Although definitional schemata are closely related to taxonomical schemata, the latter differ from the former in that the objective of a taxonomical schema is to partition some particular universe into its elements. That is, a taxonomical perspective on macromarketing attempts to find classificational criteria such that all marketing phenomena will be either "macro" or "micro." On the other hand, with a definitional perspective one could define macromarketing and micromarketing in ways such that there could be some marketing phenomena which are neither "macro" nor "micro." The importance of good classificational schemata to the development of science is well documen-

ted. Harvey (1969) suggests that classification is often the starting point for scientific investigation. Other philosophers have noted that the inductive route to scientific inquiry includes (1) observation of facts, (2) classification of facts, (3) inductive derivation of generalizations, and (4) further testing of generalizations (Hempel 1966). The importance of the "nature of macromarketing" issue has been demonstrated by White (1978), who pointed out that the explication of the macromarketing/micromarketing dichotomy is necessary to facilitate communications among marketing researchers and to guide their research efforts.

THE MACROMARKETING/MICROMARKETING ISSUE

Although the term "macromarketing" is of relatively recent vintage, many of the early works on marketing would probably be considered by most marketers as macro in nature. For example, Weld's 1920 classic The Marketing of Farm Products addressed the macro issue: "are there too many middlemen in food marketing?" Other writers whose works were macro in nature include Stewart (1939), Borden (1942), Barger (1955), and Cox (1965). Similarly, as has been pointed out by Smith and Konopa (1981), although the term "macromarketing" occasionally appeared in the literature prior to the 1970's, it did so in a casual, undefined and unspecified context. It appears that Moyer's 1972 book, Macromarketing: A Social Perspective, was the first attempt by any marketing writer to systematically delineate the differences between macromarketing and micromarketing. Moyer suggested that micromarketing is "firm-oriented" and that macromarketing "studies marketing within the context of the entire economic system, with special emphasis on its aggregate performance."

Table 1 shows the perspectives of various writers who have participated in

the controversy concerning specifying the concepts macromarketing and micro-marketing. Although Table 1 is not exhaustive of the views of all writers on the subject, it does give a representative sampling of the various perspectives. This paper will not chronologically review the debate. Rather, we shall use Table 1 as a reference to explore the "process-product" ambiguity, and then analyze in detail four key perspectives which are representative of the other perspectives and provide a conceptual foundation for proposition to be tested.

Table 1 About Here

A review of the perspectives in Table 1 shows that the concept "macromarketing" has a systematic ambiguity often referred to by philosophers of language as the process-product ambiguity (Rudner 1966). Macromarketing sometimes is used to refer to a set of activities (process) and sometimes is used to refer to an area of study (product). Levy (1976) has observed a similar process-product confusion concerning the domain of "marketing:"

One source of these problems and the struggles with them lies in the idea of marketing as an activity. It is not surprising that educators are urged to see marketing as a "doing profession," when marketing is a doing. When one is a seller and markets, one is a marketer who does marketing; and a buyer does marketing; and a buyer goes marketing. Thus, if educators teach marketing, they should teach how to do it.

Both the perspectives of Grashof and Kelman (1973) and McCarthy (1978) view macromarketing as a set of activities culminating in a system or process. The remainder of the perspectives in Table 1 perceive macromarketing as an area of study. This paper will treat macromarketing as an area of study rather than a set of activities, since our interest here is in macromarketing and micro-marketing as two halves of the discipline of marketing.

The first key perspective is that provided by Moyer (1972). Moyer contends

that whereas micromarketing is firm-oriented, macromarketing studies marketing within the context of the entire economic system, with special emphasis on its aggregate performance. Two themes emerge from this perspective: "aggregation" and "performance." Moyer suggests that macromarketing is something "bigger" than micromarketing. This is a "level of aggregation" criterion which, in one manner or another, is repeated in many of the other perspectives on macromarketing. Secondly, the "performance" criterion suggests that a major function of macromarketing is to evaluate in a normative sense marketing within our society. Consistent with this perspective, Moyer's book looks at such issues as efficiency, productivity, advertising performance, and consumerism.

Relying very heavily on a "level of aggregation" criterion for macromarketing is very consistent with the usage of the term "macro" in other social science disciplines. For example, Ackley (1961) indicates that macroeconomics deals with economic affairs "in the large." More specifically, macroeconomics concerns itself with such variables as the aggregate volume of the output of an economy. Similarly, Demerath (1976) indicates that the difference between macrosociology and microsociology is "the distinction between analyzing social phenomena from the standpoint of larger social structures and cultural processes, on the one hand, and from the standpoint of individuals and their immediate world of interactions and interrelationships on the other hand." Finally, Miles (1980) differentiates macro-organizational behavior from micro-organizational behavior in that the former studies "structures and processes within major systems, organizations, and their environments, and the linkages among them." Therefore, on a consistency basis, the credibility of using "level of aggregation" as a criterion for separating macromarketing from micromarketing is well established within the social sciences. Nevertheless, as we shall see,

there are problems with relying exclusively on this single criterion.

A second key perspective is provided by Bagozzi (1977). Bagozzi perceived micromarketing to be "behavior and characteristics of individual actors and dyadic relationships between marketing actors." Macromarketing was considered to be "networks of relationships connecting marketing actors and societal patterns or systemic relations among marketing actors." Although Bagozzi's specification of macromarketing is more detailed and appears different from Moyer's, the two perspectives are really quite similar. Bagozzi's usage of the terms "networks of relationships" and "societal patterns" is actually another way of stating a "level of aggregation" criterion. What is conspicuously absent from Bagozzi's perspective is the normative emphasis suggested by Moyer. Bagozzi does not insist that the purpose of macromarketing studies is to evaluate the performance of marketing. To Bagozzi, it would appear that the study of the positive dimensions of "networks of relationships" would be considered as macromarketing. The issue of whether macromarketing must be evaluative (normative) will be addressed later.

The third key perspective is provided by Hunt (1977): "macromarketing refers to the study of (1) marketing systems, (2) the impact and consequences of marketing systems on society, and (3) the impact and consequences of society on marketing systems." Micromarketing refers to the study of "marketing activities of individual units: organizations, firms,, consumers, or households." Like both Moyer (1972) and Bagozzi (1977), the "marketing systems" criterion implies that the level of aggregation of the study is important for separating macro from micro. Unlike Bagozzi, the "consequences of marketing systems on society" criterion specifically recognizes that it is the function of macromarketing to study the relationships between marketing systems and the rest of society.

Recalling that Moyer emphasized the normative evaluation of marketing, the "consequences on society" criterion implies that the study may be either positive or normative. Finally, the "consequences of society on marketing systems" criterion introduces a completely new element into the specification of macromarketing. This criterion suggests that if it is "macro" to explore the consequences of different kinds of marketing systems on economic development, it is also "macro" to explore the consequences of different stages of economic development on the development of marketing systems.

The final perspective is provided by Shawver and Nickels (1979) who suggest that "macromarketing is the study of exchange activities and exchange systems from a societal perspective." Shawver and Nickels indicate that this was the "consensus perspective" arrived at by the participants at a special macromarketing conference. Note that the phrase, "exchange systems" is used instead of marketing systems. Shawver and Nickels believe that since an individual firm may be considered a "marketing system," and since the study of the marketing activities of an individual firm is micromarketing, the use of "exchange systems" is preferable to "marketing systems." However, the Shawver and Nickels perspective implies that the positive study of exchange systems per se is not macromarketing. Only the study of exchange systems "from a societal perspective" is macromarketing. Unlike Bagozzi (1977) and Hunt (1977), this "societal perspective" criterion suggests that macromarketing is exclusively normative or evaluative in content. And so, this final perspective appears to be similar to the original, evaluative, "aggregative performance" criterion originally suggested by Moyer.

The preceding discussion, in conjunction with the original specification of the "Three Dichotomies Model" (Hunt 1976), provides the conceptual foundations

for the nine propositions examined in this research:

- Proposition 1: Studies of marketing systems are macro (Moyer 1972).
- Proposition 2: Studies of networks of exchange relationships are macro (Bagozzi 1977).
- Proposition 3: Studies adopting the perspective of society are macro (Shawver and Nichols 1979).
- Proposition 4: Studies examining the consequences of marketing on society are macro (Hunt 1977).
- Proposition 5: Studies examining the consequences of society on marketing are macro (Hunt 1977).
- Proposition 6: Studies of the marketing activities of individual, profit-sector organizations are micro (Moyer 1972), as are studies which adopt the perspective of individual profit-sector organizations (Shawver and Nichols 1979).
- Proposition 7: Studies of the marketing activities of individual, nonprofit-sector organizations are micro (Hunt 1976).
- Proposition 8: Studies adopting the perspective of an individual industry are micro (Hunt 1976).
- Proposition 9: Studies of the marketing activities of consumers are micro (Hunt 1976).

METHOD

Modern philosophy of language contends that the meaning of a scientific term is determined by the use of the term (Alston 1964). When a new term is introduced in a discipline, there often are several rival (sometimes contradictory) meanings associated with the term. Through time, there develops a workable consensus within the discipline to use the term in a consistent fashion. For a term to be useful in a discipline only a workable not complete consensus is required. With respect to macromarketing, Bartels (1977) agrees:

The coinage of terms is license of authorship; but it is expected that consistency of use will ultimately prevail. As there is no formal ultimate authority for the marketing lexicon, usage generally implies definition, however imprecise it may be. The use of "macro-marketing" to date has neither been challenged nor authenticated.

As an example of a term that has acquired consistency of meaning through usage, consider the concept "social marketing." Kotler and Zaltman (1971) proposed that social marketing was "the explicit use of marketing skills to help translate present social action efforts into more effectively designed and communicated programs that elicit desired audience response." However, Lazer and Kelly (1973) proposed that social marketing included both the use of marketing tools to promote social programs as well as "the social consequences of marketing policies, decisions, and actions." Through time, usage of the term by members of the marketing discipline suggests that the Kotler and Zaltman position prevailed. One can hypothesize that the Kotler and Zaltman position "won" at least in part because the term "social marketing" intuitively suggests a set of behaviors or actions, rather than a set of consequences of behaviors and actions. In any respect, the concept of social marketing has acquired meaning through its usage.

The preceding discussion suggests that the propositions concerning macromarketing and micromarketing can be meaningfully examined by first generating a set of items which span the problems, issues, theories and research conducted in marketing and then having members of the marketing discipline scale the items as to their macro and micro content. Note that, although this methodology is appropriate now that the terms "macromarketing" and "micromarketing" have been used extensively for a decade, it would be inappropriate for examining terms in their first 1-3 years of use. The items used in the present research were generated 1) from the original article on the nature and scope of marketing (Hunt 1976), 2) from the articles previously discussed in this paper concerning the macromarketing/micromarketing controversy, and 3) by developing other items directed specifically at the propositions previously discussed. The first

iteration of items was pretested on a convenience sample of marketing academicians. The second set was pretested on a probability sample of 50 academicians from the American Marketing Association roster. The final set of 50 items appears in Table 2.

At the present time both macromarketing and micromarketing are terms which are used almost exclusively by the academic part of the marketing discipline. Although through time the concepts will probably "work" through to the practitioner portion of the discipline, such is not yet the case. Therefore, a self-administered questionnaire was sent to a sample of 1,399 marketing academicians, representing a systematic sample of three out of every four marketing academicians listed in the American Marketing Association directory. A total of 289 usable questionnaires were returned for a response rate of 20.7%. Response rates in this range are not uncommon when using marketing educators as a universe. For example, Jolson and Greer (1981) obtained a 20% response rate with a questionnaire sent to marketing faculty concerning consulting activities. High response rates with marketing academicians as subjects are usually obtained only with extremely short "simple" questionnaires. For example, Browne and Becker (1977) achieved a 64% response rate, but the questionnaire simply listed marketing journals and asked respondents to evaluate each journal on a four point scale as to "quality level". During the pretest stage, the present authors chose to trade-off a few percentage points in response rate in order to have sufficient items to adequately cover all nine propositions of concern in this study.

Respondents making up the final sample were analyzed according to 1) their degree of research activity, 2) the nature of their research (micro vs. macro), 3) academic rank, 4) age, 5) public vs. private school, and 6) kind of business

program (undergraduate, masters, etc.). All the evidence suggests that the final sample was broadly representative of marketing academe. Concerning research activity, 59% were "active" or "extremely active", whereas 41% were only "somewhat active" or "not active at all". Research interests showed that 14% did "mostly macro" or "almost exclusively macro" research, 29% did "relatively equal" amounts of both macro and micro research, 50% did "mostly" or "almost exclusively micro" research, and 7% did "neither" macro nor micro research. The sample had 48% full professors, 34% associates, 14% assistants, and 4% others. Subjects were asked how many years had lapsed since they had received their last degree. Forty nine percent had been "out" 10 years or less, 37% had been "out" 11-20 years, and 15% were in the "over 20" years category. Public schools accounted for 73% of the sample, whereas 27% taught at private schools. Finally, 43% taught at universities that had a doctoral program, 46% had masters programs, and 10% had only undergraduate programs.

Subjects were asked to scale each item using the following procedure:

The terms "macromarketing" and "micromarketing" are becoming commonplace in the marketing literature. We are interested in how you perceive the meaning of these terms. For each of the issues, problems and activities listed below, please check the box indicating the extent to which you believe a "macro" or "micro," perspective is indicated. The categories are:

1. Exclusively or almost exclusively "micro"
2. Mostly "micro"
3. Has relatively equal amounts of "macro" and "micro"
4. Mostly "macro"
5. Exclusively or almost exclusively "macro"
6. Neither "macro" nor "micro"
7. Don't Know

RESULTS

The results of the study are summarized in Table 2. The items are grouped according to the modal response. Group "A" items are all items for which the modal response was "exclusively or almost exclusively macro." Group "B" items

are items where the modal response was "mostly macro." Group "C" items were "relatively equal amounts of macro and micro," and similarly for "D" and "E". Within each grouping the items are rank-ordered by mean score with higher numbers indicating that the item is more "macro." To assess the reliability of the items in each grouping, Cronbach's coefficient alpha was computed (Nunnally 1967). Alphas for groups A through E, respectively, were: 0.84, 0.62, 0.81, 0.78, and 0.87. These alpha levels suggest high internal consistency among the items in each grouping. Table 2 also includes the results of the factor analysis (varimax rotation). Eight factors were generated which were interpretable and had an eigenvalue greater than "1." The eight factors are interpreted as: (1) nonprofit organizations, (2) intermediate marketing systems, (3) total marketing systems, (4) consequences, (5) society, (6) decision-making techniques, (7) industry, and (8) perspective of an industry. The eight factors accounted for 60.6% of total variance. (More on the factor analysis later.)

Table 2 About Here

The nine propositions all address the question: "What are the criteria marketers use to categorize items as "macro" or "micro?" This question presumes that marketers both can classify the items and that they will do so in a consistent fashion. This basic presumption underlies the three dichotomies model of marketing and must be addressed before examining the nine propositions.

The basic presumption can be tested by examining the sample variance for each item. Suppose marketers could not consistently classify an item by means of the 5 categories used (the null hypothesis). The random assignment of scores by each respondent for each item would result in a uniform distribution of scores in each category for each item. The resultant variance for each item

would be 2.0. That is, $H_0: \sigma^2=2$ for each item. If subjects can consistently classify each item, the variance should be less than 2.0. That is, $H_1: \sigma^2 < 2.0$

An examination of Table 2 reveals that the sample variances range from a minimum of 0.28 to a maximum of 1.64 with the variance of most items being approximately 1.0. Therefore, the question is: is a sample variance of 1.0 significantly lower than the "random assignment" variance of 2.0? A sample variance of 1.0 indicates a standard error of the estimate of approximately 0.1. Therefore, the sample variance is approximately 10 standard deviations below the "random assignment" variance of 2.0 and the null hypothesis is emphatically rejected.

A second way to "test" the basic presumption that marketers can classify items by way of the micro/macro dichotomy is to examine the extent to which respondents believed the items were neither macro nor micro. Table 2 shows that for almost all of the items the percentage that checked "neither" was very small. In only two cases, items E8 and E12, did the percentage of "neithers" exceed 15%. Both of these items dealt with research techniques, i.e., multidimensional scaling and conjoint analysis. Since research techniques, per se, are not "marketing," the high percentage of "neithers" on these two items was both expected and affirmatively responsive to the basic presumption.

A third "test" can be conducted by examining the percentage of "don't knows." A high percentage of "don't knows" for the items would be evidence against the basic presumption. Again, in only a single case did the percentage of "don't knows" exceed 15%. For item B2, studies of "highly aggregated marketing activities," 19% of the respondents did not know whether it was macro or micro. We believe that the respondents in this case were unsure of the meaning of "highly aggregated marketing activities."

A fourth "test" would be the number of items in category "C," designating that the items have "relatively equal amounts of macro and micro." A large number of items in category "C" would be evidence against the basic presumption. Table 2 shows that only 20% of the total items reside in category "C." Given that there will always be borderline cases in any classificational schema, the 20% figure seems reasonably small.

A final "test" was conducted by asking respondents in another section of the questionnaire to indicate the degree of confidence they had in their abilities to categorize the items. A high degree of confidence would be evidence in favor of the basic presumption. Of the total, 11.8% were "very confident," 31.9% were "confident," 43.1% were "somewhat confident," and only 12.5% were "not confident at all." Again, the evidence seems to be in favor of the basic presumption of the research.

Taken in isolation, none of the preceding "tests" would be conclusive evidence. Nevertheless, when all five tests are considered in toto, they present very strong evidence that marketers can consistently categorize the problems, issues, and research in marketing by way of the macro/micro dichotomy. This conclusion becomes even stronger when one considers the extemporaneous comments that many respondents made on their questionnaires. For many respondents most of the ambiguity had to do with the meanings of many of the items themselves, rather than the meanings of "macro" and "micro." For example, with respect to item C4 some respondents wished that the item had been further specified to include whether the "characteristics of marketing institutions" were going to be examined from the perspective of the firm or the perspective of society. Although pretests of the questionnaire had identified some of these ambiguities, the researchers chose not to resolve these ambiguities in the questionnaire-

development stage because one of the major purposes of the research was to determine whether marketers could consistently categorize items without such key descriptors as "perspective of society" or "perspective of the firm." Therefore, it is appropriate to investigate the nine propositions concerning criteria for classifying items as "micro" or "macro."

PROPOSITION 1

Proposition 1 suggests that the study of marketing systems is "macro." The results clearly support this proposition. Every single item that has the term "marketing systems" in it is considered to be macro (items A5, A6, A9, and A10).¹ The factor analysis also provides supportive evidence. Factor 3 indicates that the "total marketing system" is a key underlying dimension that respondents rely on in making judgments. As previously discussed, when one uses marketing systems as a criterion for distinguishing macromarketing from micromarketing, one is implicitly using a "level of aggregation" kind of criterion. Using level of aggregation comes directly from macroeconomics and macrosociology. Items A1 and B2 specifically include the term "aggregate" and both items are considered macro.

Although the study of marketing systems is clearly macro, the results point out a significant unresolved issue: what is the nature of a marketing system? Are channels of distribution marketing systems? Is an industry a marketing system? Are marketing institutions marketing systems? Are groups of wholesalers marketing systems? There is no doubt that most marketers would consider one or more of the preceding to be examples of marketing systems, and the study of "marketing systems" is clearly macro. Nevertheless, items C4, C5, C7, C8, C9 and D4 all involve channels of distribution, industries, institutions, and who-

lesalers. Yet, there remains significant doubt among respondents as to whether these items are macro or micro. In fact, half of all the items in category "C" deal with these specific issues. The findings suggest that the study of "marketing systems" is conclusively macro only when the marketing system involved is the total marketing system of an economy, not marketing systems that are intermediate between individual firms and the total marketing system. This is consistent with Arndt's (1981) position. Arndt suggests that the study of these intermediate marketing systems should be referred to as "meso" marketing.

PROPOSITION 2

The second proposition indicates that the study of "networks of exchange relationships" is macro. Items A8 and C2 both involve networks of exchange relationships.² Item A8 is considered clearly macro, yet item C2 is much less macro. Again, the factor analysis assists us in interpreting the results. Both items A8 and C2 load heavily on the "total marketing systems" factor. It appears that "networks of exchange relationships" are considered to be macro only to the extent that they are synonymous with the concept of a marketing system. Therefore, networks of exchange relationships "across different cultures" (A8) is macro, while simply studying "networks" is much less so.

PROPOSITION 3

Proposition 3 indicates that studies which adopt the perspective of society are macro. Three items (A1, A2, and A4) specifically incorporate the phrase "perspective of society." Two other items (A5 and A7) use the phrase "social desirability." These two concepts are closely related since when one adopts "the perspective of society," one is attempting to determine what is "socially

desirable."³ That is, both of these concepts have a heavy normative content. As expected, both of the "social desirability" items are exclusively macro. The factor analysis also suggests that the term "society" is a key underlying dimension (factor 5).

PROPOSITION 4

The next proposition suggests that studies of the impacts and consequences of marketing on society are macro. Note that one can study the consequences of a marketing action on society without necessarily evaluating those consequences. That is, one can study the consequences from a positive perspective instead of a normative perspective. Items A3, B1, and B3 all examine the consequences of marketing on society and all are macro.⁴ Note that when one refers to marketing "actions and transactions" in general (A3), the item is more macro than the actions of an industry (B1), which is slightly more macro than the actions of a particular firm (B3). The factor analysis also indicates that respondents are keying on the underlying constructs of "impacts" and "consequences" (factor 4). Note that the "consequences" factor includes both the consequences of marketing on society and the consequences of society on marketing (the next proposition).

PROPOSITION 5

Proposition 5 proposes that studies examining the impact of society on marketing are macro. Item A9, the impact of technology on marketing systems, provides the cleanest "test" of the proposition and this item is exclusively macro. Nevertheless, studies exploring the impacts of society on particular firms (items E3 and E4), are exclusively micro.⁵ Similarly, studies of the consequences of society on industries (items C5 and C8) are mixtures of micro and

macro.⁶ Therefore, it would appear that there is an underlying level of aggregation criterion at work. The consequences of society 1) on marketing in general are macro, 2) on industries are both macro and micro, and 3) on firms are micro.

PROPOSITION 6

Proposition 6 proposes that the study of the marketing activities of individual, profit-sector organizations is micro. Items E3, E4, E6, E7, E15, E16, and E17 provide overwhelming affirmative evidence.⁷ Studies that are positive (E3, E4, E6, E7, and E16) are micro, as well as the studies that are normative (E15 and E17). Similarly, both studies which adopt the "perspective of the firm" are micro (E7) and studies which explore the "impact on firms of government regulation" (E3 and E4) are micro.

PROPOSITION 7

Proposition 7 suggests that the study of the marketing activities of individual, nonprofit-sector organizations is micro. The results overwhelmingly support the proposition. Of the eight nonprofit-sector items, five are exclusively micro (E1, E5, E9, E10, and E13), two are mostly micro (D5 and D6) and only one (C10) is a mixture of macro and micro.⁸ Item C10, "exploring how nonprofit organizations use marketing," is probably "more" macro than the other items because of an implicit "level of aggregation" criterion. That is, respondents are probably reacting as if the phrase "in general" appeared at the end of the item. The factor analysis provides further support that studies of the practices of nonprofit-sector organizations are micro. All eight of the nonprofit-sector items load on the first factor. Note that the not-for-profit

items include a wide range of organizations: hospitals (E5), museums (E9), social agencies (E13), social causes (E1 and D5), and governmental agencies (D6 and E10). Some items are positive (D6, E1, and E9) and some are normative (E5, E10, E13). All the practices, activities and perspectives of all these nonprofit-sector organizations are micro.

PROPOSITION 8

Proposition 8 proposes that studies of the marketing practices of specific industries are micro. A priori, using a "level of aggregation" criterion, one would expect that studies adopting the perspective of a particular industry would be micro, but not "quite" as micro as studies adopting the perspective of a particular firm since industries would be an intermediate marketing system. The results seem to support this view. Four items examined the marketing practices and perspectives of specific industries, D3, D7, D9, and E11.⁹ Only the final item "studying how the steel industry should segment its market" is "exclusively" micro. The others reside in the "mostly" micro category. This is in contrast to the fact that all seven (E3, E4, E6, E7, E15, E16, and E17) of the items identifying a for-profit organization perspective or activities were classified as "exclusively" micro. Note that both factors 7 and 8 have a strong "industry" orientation.

PROPOSITION 9

The final proposition suggests that studies of consumer behavior are micro. Items D2, E2, and E14 examine and support the proposition. Even here an implicit "level of aggregation" criterion can be observed. Although all three items are micro, the study of "individual consumers" (E14) appears to be "more"

micro than the "role of learning theory" (E2), which appears to be "more" micro than "general models of consumer behavior" (D2).

MODEL DEVELOPMENT AND CONCLUSION

How should the universe of marketing phenomena, issues and research be partitioned into its macro and micro elements? Since we have explored the positive issue of how marketers distinguish macromarketing from micromarketing, it is time to address the normative issue of what criteria should be used to develop a complete taxonomy of macromarketing vs. micromarketing. Using Sokal and Sneath's (1963) terminology, the research results clearly indicate that a monothetic taxonomy will not be sufficient. That is, a taxonomical system relying on a single (like "perspective of society") criterion for classification will not provide a complete, unambiguous partitioning of the universe of marketing phenomena. In large part, many of the problems that have developed in the marketing literature with respect to distinguishing macromarketing from micromarketing have developed from ill-guided efforts to find a single classificational criterion. A polythetic (multiple criteria) taxonomical system will be required.

Based on the research results reported in this study, the authors propose the polythetic taxonomical model displayed in Table 3. The model suggests that three classificational criteria are both necessary and sufficient to specify the macromarketing/micromarketing dichotomy: (1) "level of aggregation," (2) "perspective of," and (3) "consequences on." The first criterion asks the taxonomical question "What is the level of aggregation of the unit of analysis?" Seven units of analyses are proposed: (1) the total societal system and its non-marketing societal sub-systems; (2) the total marketing system; (3) intermediate

marketing systems, such as channels of distribution, retail systems, wholesale systems, and industries; (4) organizational marketing systems, such as for-profit firms, not-for-profit organizations, and social causes; (5) the total consumption system, that is, the total pattern of consumers' purchases throughout society; (6) household consumption systems, that is, the buying behaviors and patterns of behaviors of households; and (7) individual consumer behavior, that is, the buying behaviors and patterns of behaviors of individual consumers. Note that there are three levels of aggregation of both marketing systems and consumer systems.

Table 3 About Here

The second column of the model classifies each unit of analysis using a "level of aggregation" criterion. Therefore, the study of the total marketing system of a society is "macro." The asterisk indicates that the classification is supported by the results reported in this study. Column 2 also shows that the study of intermediate marketing systems is a mixture of macro and micro and that both the study of individual organizations and individual consumers are micro. Again, the asterisks indicate that these conclusions spring directly from the results of the study.

The model also incorporates numerous extensions of the underlying logic of the classificational criteria. Extending the logic of the "level of aggregation" criterion suggests that studies of the total consumption system are macro and studies of household consumption systems are micro. Note that household consumptions systems are roughly analagous to individual-organization marketing systems and that the total consumption system is analagous to the total marketing system.

The second criterion asks "Is the unit of analysis being viewed from the perspective of society or the perspective of the individual organization?" Column 3 of the model indicates that whenever any marketing unit of analysis is investigated from the "perspective of society," the investigation is macro. For example, the research results clearly indicate that when one examines the social desirability of marketing organizations and systems, the research is macro. Similarly, Column 4 indicates that whenever one examines an issue from the "perspective of the firm," the research is micro.

The third criterion inquires "Is the study investigating the consequences of one unit of analysis (e.g. the total marketing system) on another unit (e.g. society)." The final seven columns of the model employ the "consequences on" criterion. For example, the consequences of the total marketing system on society is macro; the consequences of intermediate marketing systems on the total marketing system is macro; the consequences of individual-organization marketing systems on intermediate marketing systems is a mixture of both macro and micro; and so on, throughout the table.

The model is not only completely consistent with how respondents actually classified the issues, but also, it is consistent with the criteria respondents suggested should be used to distinguish macromarketing from micromarketing. Respondents were asked to propose their own definitions of macromarketing and micromarketing. Of the 237 who responded to the question, 40.1% suggested a "society perspective," 38.0% suggested "level of aggregation," 25.3% suggested "consequences on society," 19.8% suggested "marketing systems," and 8.9% suggested "consequences on marketing."

The ultimate test of any taxonomical model is not whether phenomena can be classified, but rather, is it useful to do so? The answer appears to be

strongly affirmative. First, the macromarketing/micromarketing dichotomy has been previously used (Hunt 1976) to help resolve the "is marketing a science?" debate and the "nature of marketing" controversy. Secondly, as White (1978) has observed, the development of a taxonomical model to differentiate macromarketing from micromarketing should facilitate communications among marketers. Thirdly, an analysis of the model displayed in Table 3 suggests areas where additional research would be fruitful. For example, over the last two decades almost all of the research conducted by marketers on consumer behavior has been micro in nature. Almost all of the research has focused on purchase behavior as the "ultimate" dependent variable. The model points out that numerous research areas that concern consumer behavior, are macro in nature, and are worthy of investigation. The model also includes the concept "total marketing system." Although the concept is not new to the marketing literature, it is the authors' judgment that the characteristics of a society's total marketing system have not been adequately explored. For example, how does one differentiate the "total marketing system," from the "total economic system?" We believe this issue is important and worthy of much more attention than it has received in the past.

In conclusion, marketers can and do categorize marketing phenomena, issues, and research by way of the macromarketing/micromarketing dichotomy. Using the three criteria of (1) "level of aggregation," (2) "perspective of," and (3) "consequences on," a taxonomical model can completely specify the various kinds of marketing studies. The macromarketing/micromarketing dichotomy has been useful in resolving controversies in marketing. The taxonomical model developed herein facilitates communications among marketing researchers and points out potentially fruitful areas for further research.

FOOTNOTES

- ¹Cronbach's coefficient alpha for items A5, A6, A9, and A10 is .724
- ²Cronbach's coefficient alpha for items A8 and C2 is .810
- ³Cronbach's coefficient alpha for items A1, A2, A4, A5, and A7 is .761
- ⁴Cronbach's coefficient alpha for items A3, B1, B3 is .647
- ⁵Cronbach's coefficient alpha for items E3 and E4 is .680
- ⁶Cronbach's coefficient alpha for items C5 and C8 is .600
- ⁷Cronbach's coefficient alpha for items E3, E4, E6, E7, E15, E16, and E17 is .751
- ⁸Cronbach's coefficient alpha for items C10, D5, D6, E1, E5, E9, E10, and E13 is .877
- ⁹Cronbach's coefficient alpha for items D3, D7, D9, and E11 is .647
- ¹⁰Cronbach's coefficient alpha for items D2, E2, and E14 is .727

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TABLE 1
Macromarketing/Micromarketing Perspectives

Author	Perspective
A. Moyer (1972)	Macromarketing studies marketing within the context of the entire economic system with special emphasis on its aggregate performance. Micromarketing is firm-oriented.
B. Shapiro (1973)	Marketing from the overall view of the aggregate activity in the economy for meeting societies objectives of a proper flow of goods and services is macromarketing.
C. Grashof and Kelman (1973)	The macromarketing system in the U.S., a mass production-mass consumption mixed-market directed economy, serves to overcome discrepancies or mismatches between production and consumption.
D. Spratlan (1975)	Macromarketing pertains to the aggregates of market transactions or exchange activities, institutions, behavior and performance analyzed with respect to such units as industries, sectors, regions or the marketing system as a whole.
E. Hunt (1976)	Macromarketing suggests a higher level of aggregation, usually marketing systems or groups of consumers. Micromarketing refers to individual units, normally individual organizations (firms) and consumers or households.
F. Bagozzi (1977)	Macromarketing studies networks of relationships connecting marketing actors and societal patterns or systemic relationship among marketing actors. Micromarketing studies the behavior and characteristics of individual actors or attributes of single marketing entities and dyadic relationships between marketing actors.
G. Bartels and Jenkins (1977)	Perhaps most widely, macromarketing has meant marketing in general and the data which depict marketing in general. It has meant the marketing process in its entirety, and the aggregate mechanism of institutions performing it. It has meant systems and groups of micro institutions, such as channels, conglomerates, industries, and associations, in contrast to their individual component units. More recently, it has meant the social context of micromarketing, its role in the national economy, and its application to the marketing of noneconomic goods. It has also meant the uncontrollable environment of micro firms.
H. Hunt (1977)	Macromarketing refers to the study of 1) marketing systems 2) the impact and consequences of marketing systems on society, and 3) the impact and consequences of society on marketing systems. Micromarketing refers to individual units: organizations, firms, consumers or households.

TABLE 1 continued
 Macromarketing/Micromarketing Perspectives

Author	Perspective
I. Nickels and Hill (1978)	<p>Macromarketing is the study of intra-national and international exchange systems rather than particular dyadic exchange relationships, and includes: 1) the structure, process (flows), and power relationships within systems, 2) the effects of exchange systems on various subsystems, 3) the effects of various environmental influences on the total exchange systems, 4) the productivity and equity of various exchange systems, 5) the interactions between and among domestic and international exchange systems, 6) the management of exchange systems rather than particular organizations, 7) the effect of the total exchange system on economic development, 8) the complex decision making processes of buying centers and distribution systems, 9) the activities and structure of collectives within exchange systems, 10) the public policy implications of the total exchange system.</p>
J. McCarthy (1978)	<p>Macromarketing is a socioeconomic process which directs an economy's flow of goods and services from producers to consumers in a way which effectively matches heterogeneous supply capabilities with heterogeneous demand and accomplishes both the short-run and long-run objectives of society.</p>
K. Slater (1978)	<p>Marketing and distribution from a societal perspective is macromarketing.</p>
L. White and Emory (1978)	<p>Studying the impacts of the transaction upon the broader system, society, or groups is macromarketing.</p>
M. Shawver and Nickels (1979)	<p>Macromarketing is the study of exchange activities and exchange systems from a societal perspective.</p>

Macro/Marketing Summary of Results

Item	Mean	S.D.	Variance	Dont Know %	Factor Structure						
					1	2	3	4	5	6	7
<u>A. Exclusively Macro</u>											
A1. Determining the aggregate performance of marketing in society-----	4.74	.53	1.1	0.4							
A2. Studies evaluating marketing from society's perspective-----	4.59	.63	1.0	1.0							
A3. The consequences on society of marketing actions and transactions-----	4.45	.77	2.1	0.7							
A4. Studying the optimum channel structure from society's perspective-----	4.40	.77	1.0	0.3							
A5. Studying the social desirability of vertical marketing systems-----	4.38	.81	2.4	0.7							
A6. Comparing the marketing systems of different nations-----	4.37	.81	0.7	0.3							
A7. Studying the social desirability of political advertising-----	4.22	.81	5.9	1.0							
A8. Comparing networks of exchange relations across different cultures-----	4.16	.92	1.8	2.3							
A9. The impact of technology on marketing systems-----	3.99	.95	1.4	2.3							
A10. Studies of marketing systems-----	3.97	.96	1.0	3.3							
A11. Examining how marketing adapts to different cultures-----	3.85	.98	1.4	0.0							
<u>B. Mostly Macro</u>											
B1. The impact of the pricing practices of the steel industry on inflation-----	3.60	1.24	1.1	0.7						.38	
B2. Studies of highly aggregated marketing activities-----	3.52	1.09	4.8	19.0							
B3. The impact of the marketing activities of General Motors on the quality of life-----	3.48	1.01	2.1	1.4							
<u>C. Equally Macro and Micro</u>											
C1. Examining Alcherson's general theory of marketing-----	3.65	1.04	5.9	5.3							
C2. Evaluating networks of exchange relationships-----	3.55	1.07	3.5	5.1							
C3. Evaluating general theories of marketing-----	3.49	1.06	8.9	3.5							

Marketing/Micromarketing Summary of Results

Item	Mean	S.D.	Weight	Don't Know %	Factor Structure						
					1e	2f	3g	4h	5i	6j	7k
A. Exclusively Macro											
A1. Determining the aggregate performance of marketing in society-----	4.74	.53	1.1	0.4							
A2. Studies evaluating marketing from society's perspective-----	4.59	.63	1.0	1.0							
A3. The consequences on society of marketing actions and transactions-----	4.45	.77	2.1	0.7							
A4. Studying the optimum channel structure from society's perspective-----	4.40	.77	1.0	0.3							
A5. Studying the social desirability of vertical marketing systems-----	4.38	.81	2.4	0.7							
A6. Comparing the marketing systems of different nations-----	4.37	.81	0.7	0.3							
A7. Studying the social desirability of political advertising-----	4.22	.81	5.9	1.0							
A8. Comparing networks of exchange relations across different cultures-----	4.16	.92	1.8	2.9							
A9. The impact of technology on marketing systems-----	3.99	.95	1.4	2.8							
A10. Studies of marketing systems-----	3.97	.96	1.0	3.8							
A11. Examining how marketing adapts to different cultures-----	3.85	.98	1.4	0.0							
B. Mostly Macro											
B1. The impact of the pricing practices of the steel industry on inflation-----	3.60	1.24	1.1	0.7							
B2. Studies of highly aggregated marketing activities-----	3.52	1.09	1.8	19.0							
B3. The impact of the marketing activities of General Motors on the quality of life-----	3.48	1.01	2.1	1.4							
C. Equally Macro and Micro											
C1. Examining Alderson's general theory of marketing-----	3.65	1.04	8.9	5.3							
C2. Evaluating networks of exchange relationships-----	3.55	1.07	3.5	5.2							
C3. Evaluating general theories of marketing-----	3.49	1.06	8.9	3.3							

.38

TABLE 2. Continued
 Micro Marketing, Micromarketing Summary of Results

Item	Mean	S.D.	Netcher's	Don't know	Factor Structure							
					1	2	3	4	5	6	7	8
D. Motiv Micro continued												
E9. Examining alternative channels of distribution from the perspective of a single industry	-1.93	.82	0.4	0.4	.34							
E. Exclusively Micro												
E1. Determining the success of the "Smoker-Year" campaign	-2.36	1.28	3.2	2.5	.72							
E2. The role of learning theory in buyer behavior	-2.19	1.16	14.4	2.1		.32					.57	
E3. The impact of the Department of Energy on the product line of Exxon Corp.	-2.10	1.07	1.8	1.4			.62					
E4. The consequences of government regulation on a particular firm	-1.97	1.05	0.4	1.8			.75					
E5. Studying how hospitals should price their services to increase revenue	-1.95	1.03	1.1	0.7	.61							
E6. Examining how firms conduct strategic marketing planning	-1.94	1.02	1.6	0.7		.68						
E7. Evaluating government regulations in the beer industry from the perspective of Miller Brewing Company	-1.89	.96	1.4	1.1			.66					
E8. How to use multidimensional scaling	-1.87	1.04	33.1	3.9							.70	
E9. Examining how museums segment their markets	-1.81	.89	1.1	0.7	.73							
E10. Determining the best theme for United States Army recruiting posters	-1.81	.99	2.8	0.7	.79							
E11. Advancing how the steel industry should segment its market	-1.71	.86	0.7	0.7	.31						.37	
E12. How to use conjoint analysis in marketing research	-1.70	.90	21.1	8.8							.72	
E13. Determining how United Way should allocate its media budget	-1.65	.95	1.8	1.1	.68						.32	
E14. Studies focused on individual consumer's buying practices	-1.62	.84	2.4	0.7							.43	
E15. Examining how firms should make pricing decisions to maximize profits	-1.60	.84	0.7	0.0							.31	
E16. Determining how the Whirlpool Corp. uses marketing research	-1.35	.66	2.1	0.4		.30	.44				.39	

TABLE 2 (continued)
 Macromarketing/Micro Advertising Survey: 1970-71 Results

Item	Mean	S.D.	Number of	Densities Known	Factor Structure ⁴							
					1 ^e	2 ^f	3 ^g	4 ^h	5 ⁱ	6 ^j	7 ^k	8 ^l
E. Exclusively Micro continued												
517. Determining how Proctor & Gamble should set its advertising budget-----	1.30	.60	0.7	0.1								
Eigenvalues					11.4	5.6	3.3	2.9	2.1	2.0	1.6	1.5
Percent Explained Variance					22.9%	11.1	6.7	5.8	4.1	4.0	3.1	3.0
Coefficient alphas					0.90	0.87	0.85	0.82	0.76	0.79	0.69	0.70
									.44	.32		

Table 2 Footnotes

- ^aItems are grouped according to modal response: For example, Group "A" items are those whose modal response was "5," i.e., "exclusively or almost exclusively macro." Group "B" items were "4," i.e., "mostly macro," and so on. Within each group the items are ranked according to mean score.
- ^bThe percentage that indicated that the item was "neither macro nor micro."
- ^cThe percentage that indicated that they "didn't know" whether the item was macro or micro.
- ^dVarimax rotation. Following Nunnally (1967) factor loadings of 0.3 and above are reported.
- ^e"Social marketing" factor, i.e. how public sector and nonprofit organizations do and should conduct marketing.
- ^fThe "intermediate marketing systems" factor, i.e., marketing institutions, channels of distribution, and industries.
- ^gThe "total marketing system" of a society factor.
- ^hThe "consequences" factor, i.e. the consequences of some unit of analysis on another unit of analysis.
- ⁱThe "society" factor.
- ^jThe "decision-making techniques" factor.
- ^kThe "industry" factor.
- ^lThe "perspective of an industry" factor.

TABLE 3
Macromarketing/Micromarketing: The Systems/Perspectives/Consequences Taxonomical Model^a

Units of Analysis	"From the Perspective of "i"							"Consequences on "j"						
	I	IV	I	II	III	IV	V	VI	VII	I	IV	V	VI	VII
I. Total societal system and nonmarketing societal sub-systems	X		X	I*		X	A*	AI*	I*	A	I	I		
II. Total marketing system ^b	A*		A*	I*		A*	X	AI	I	A	I	I		
III. Intermediate marketing systems	AI*		A*	I*		A*	A	X	I	A	I	I		
IV. Individual-organization marketing systems ^d	I*		A*	I*		A*	A	AI	X	A	I	I		
V. Total consumption system ^e	A		A*	I*		A	A	AI	I	X	I	I		
VI. Household consumption systems ^f	I		A*	I*		A	A	AI	I	A	X	I		
VII. Individual consumer behavior ^g	I*		A*	I*		A	A	AI	I	A	I	I		X

TABLE 3 footnotes

- ^aWhere "A" designates macromarketing, "I" designates micromarketing, "AI" designated a mixture of both macro and micro, and "X" means not applicable. The classification of asterisked items are derived from the research results. Other classifications are extensions of the research results.
- ^bThe total marketing system of a society.
- ^cMarketing sub-systems such as channels of distribution, retail systems, wholesale systems and industries.
- ^dIndividual organizations including, for-profit firms, not-for-profit organizations and social causes.
- ^eThe total pattern of consumer's purchases throughout society.
- ^fThe buying behaviors, and patterns of behaviors of households.
- ^gThe buying behaviors, and patterns of behaviors of individual consumers.
- ^hThe classification in column 2 are based on a "level of aggregation" criterion. For example, "Studies of the total marketing system are macro," and "Studies of individual consumer behavior are micro."
- ⁱColumns 3 and 4 are, respectively, the "perspective of society" and the "perspective of the firm" criteria. For example, studies of "intermediate marketing systems" from 1) the "perspective of society" are macro, and 2) the "perspective of the firm" are micro.
- ^jClassifications in columns 5 through 11 are based on the consequences of each unit of analysis in column 1 on each unit of analysis in columns 5 through 11. For example, the consequences of the "total marketing system" on the "total societal system" are macro, and the consequences of "individual-organization marketing system" on "individual consumer behavior" are micro.

Item	Mean	S.D.	Neither % ^b	Don't Know % ^c	Factor Structure ^d							
					1e	2f	3g	4h	5i	6j	7k	8l
<u>Exclusively Macro</u>												
1. Determining the aggregate performance of marketing in society	4.74	.53	1.1	0.4								
2. Studies evaluating marketing from society's perspective	4.59	.63	1.0	1.0								
3. The consequences on society of marketing actions and transactions	4.45	.77	2.1	0.7								
4. Studying the optimum channel structure from society's perspective	4.40	.77	1.0	0.3								
5. Studying the social desirability of vertical marketing systems	4.38	.81	2.4	0.7								
6. Comparing the marketing systems of different nations	4.37	.81	0.7	0.3								
7. Studying the social desirability of political advertising	4.22	.81	5.9	1.0								
8. Comparing networks of exchange relations across different cultures	4.16	.92	1.8	2.8								
9. The impact of technology on marketing systems	3.99	.95	1.4	2.8								
10. Studies of marketing systems	3.97	.96	1.0	3.8								
11. Examining how marketing adapts to different cultures	3.85	.98	1.4	0.0								
<u>Mostly Macro</u>												
1. The impact of the pricing practices of the steel industry on inflation	3.60	1.24	1.1	0.7								
2. Studies of highly aggregated marketing activities	3.52	1.09	1.8	19.0								
3. The impact of the marketing activities of General Motors on the quality of life	3.48	1.01	2.1	1.4								
<u>Equally Macro and Micro</u>												
1. Examining Alderson's general theory of marketing	3.65	1.04	8.9	5.3								
2. Evaluating networks of exchange relationships	3.55	1.07	3.5	5.2								
3. Evaluating general theories of marketing	3.49	1.06	8.9	3.5								

Item	Mean	S.D.	Neither % ^b	Don't Know % ^c	Factor Structure ^d							
					1 ^e	2 ^f	3 ^g	4 ^h	5 ⁱ	6 ^j	7 ^k	8 ^l
Equally Macro and Micro continued												
4. Examining the characteristics of marketing institutions	3.38	1.13	2.8	3.2	.56	.30						
5. The impact of consumer activists												
6. Examining the role of Sears Roebuck & Co. in encouraging economic development in Mexico	3.20	1.01	0.7	1.1	.34	.42						
7. Studying the evolution of different kinds of wholesalers	3.10	1.12	2.8	0.0	.47	.58						
8. The consequences of new federal legislation on an industry	3.00	1.07	1.4	2.1		.54						
9. Examining conflict in channels of distribution	2.69	1.04	1.8	1.4	.68							
0. Exploring how nonprofit organizations use marketing	2.51	1.05	3.2	2.1	.39	.49						
Mostly Micro												
1. The consequences on higher education of universities' engaging in sophisticated advertising campaigns for new students	2.86	1.15	4.2	2.5	.41							
2. Evaluating general models of consumer behavior	2.64	1.15	6.3	2.1		.48						
3. Examining restrictions on advertising from the perspective of the cigarette industry	2.56	1.15	2.1	0.7								
4. Mapping the channels of distribution for several commodities	2.51	1.11	1.8	1.1		.31						
5. Examining how the "stop smoking" campaign should be organized	2.47	1.27	6.3	2.1	.61							
6. Exploring how various state governments advertise for new industry	2.36	1.06	1.8	1.8	.67							
7. Examining product safety requirements from the perspective of a single industry	2.32	1.07	2.8	1.4	.44							
8. Studying how the appliance industry selects channels of distribution	2.02	.94	0.0	0.4	.35	.41						

Macromarketing/Micromarketing Summary of Results

Item	Mean	S.D.	Neither % ^b	Don't Know % ^c	Factor Structure ^d							
					1e	2f	3g	4h	5i	6j	7k	8l
D. Mostly Micro continued												
E9. Examining alternative channels of distribution from the perspective of a single industry-----	1.93	.82	0.4	0.4	.34						.57	
F. Exclusively Micro												
E1. Determining the success of the "Smokey-the-Bear" campaign-----	2.46	1.28	3.2	2.5	.72							
E2. The role of learning theory in buyer behavior-----	2.19	1.16	14.4	2.1	.32						.57	
E3. The impact of the Department of Energy on the product line of Exxon Corp-----	2.10	1.07	1.8	1.4				.62				
E4. The consequences of government regulation on a particular firm-----	1.97	1.05	0.4	1.8				.75				
E5. Studying how hospitals should price their services to increase revenue-----	1.95	1.03	1.1	0.7	.61							
E6. Examining how firms conduct strategic marketing planning-----	1.94	1.02	1.8	0.7	.68							
E7. Evaluating government regulations in the beer industry from the perspective of Miller Brewing Company-----	1.89	.96	1.4	1.1				.66			.70	
E8. How to use multidimensional scaling-----	1.87	1.04	33.1	3.9								
E9. Examining how museums segment their markets-----	1.81	.89	1.1	0.7	.73							
E10. Determining the best theme for United States Army recruiting posters-----	1.81	.99	2.8	0.7	.79							
E11. Studying how the steel industry should segment its market-----	1.71	.86	0.7	0.7	.31						.37	
E12. How to use conjoint analysis in marketing research-----	1.70	.90	21.1	8.8							.72	
E13. Determining how United Way should allocate its media budget-----	1.65	.95	1.8	1.1	.68						.32	
E14. Studies focused on individual consumer's buying practices-----	1.62	.84	2.4	0.7							.43	
E15. Examining how firms should make pricing decisions to maximize profits-----	1.60	.84	0.7	0.0							.31	
E16. Determining how the Whirlpool Corp. uses marketing research-----	1.35	.66	2.1	0.4	.30			.44			.39	

Item	Mean	S.D.	Neither % ^b	Don't Know % ^c	Factor Structure ^d							
					1e	2f	3g	4h	5i	6j	7k	8l

F. Exclusively Micro continued
 F17. Determining how Proctor & Gamble should set its advertising budget-----1.30 .60 0.7 0.4 .44 .32

Eigenvalues	Percent Explained Variance	Coefficient alpha	1e	2f	3g	4h	5i	6j	7k	8l
11.4	5.6	0.90	0.87	0.85	0.82	0.78	0.79	0.69	0.70	
22.9%	11.1									

Table 2 Footnotes

- ^a Items are grouped according to modal response: For example, Group "A" items are those whose modal response was "5," i.e., "exclusively or almost exclusively macro." Group "B" items were "4," i.e., "mostly macro," and so on. Within each group the items are ranked according to mean score.
- ^b The percentage that indicated that the item was "neither macro nor micro."
- ^c The percentage that indicated that they "didn't know" whether the item was macro or micro.
- ^d Varimax rotation. Following Nunnally (1967) factor loadings of 0.3 and above are reported.
- ^e "Social marketing" factor, i.e. how public sector and nonprofit organizations do and should conduct marketing.
- ^f The "intermediate marketing systems" factor, i.e., marketing institutions, channels of distribution, and industries.
- ^g The "total marketing system" of a society factor.
- ^h The "consequences" factor, i.e. the consequences of some unit of analysis on another unit of analysis.
- ⁱ The "society" factor.
- ^j The "decision-making techniques" factor.
- ^k The "industry" factor.
- ^l The "perspective of an industry" factor.

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Toward a Theory of Marketing Competition

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Toward a Theory of Marketing Competition

Abstract

In the area of public policy, marketing scholars have borrowed freely from economic theory. While this was necessary in the early days of the discipline, marketing theory should presently be offering its own theory of competition to replace economic models. The present discussion offers arguments which could form the basis of public policy based on the realities of marketing competition.

Introduction

In the areas of pricing and public policy, the marketing literature depends heavily upon concepts borrowed from economic theory. Every marketing textbook freely borrows doses of micro-economic theory; authors lift without questioning concepts such as monopoly, oligopoly, price elasticity and kinked demand functions. This is done at the same time and in contrast to the general premise that marketing is different than economics. Marketing views itself as a discipline which attempts to understand how markets work in terms of want satisfaction; yet, marketing scholars accept the assumptions of economic theory, which, of course, is aimed at showing how markets should work under the premise of resource allocation. The present paper discusses several areas of inquiry which may lead to a more relevant theory of competition based on marketing principles which can be used in a more proper evaluation of public policy issues.

Basis of Marketing Competition

What is marketing competition?

The theory of marketing competition is a taxonomic theory of how firms behave in markets. It describes the way in which firms perceive the environment and their competitors. It differs from economic theory in that there is no prescription as to how firms should behave. More importantly, the theory emphasizes that firms use differing sets of structures to make the same decisions. The structural elements vary in importance and in intensity from firm to firm; they also vary within firms from

time to time and differ in regard from one space or market to another space or market. While for some purposes firms might share in common structural elements, the natural pattern is characterized by diversity. The central characteristic of marketing competition is achievement of market diversity. Diversity is the means by which any firm can maximize the spatial and temporal abilities of buyers to consume. Consumers are buffeted by this pursuit for diversity as well as their own desire to maximize a position of diversity. Both participants come to the market with this goal. This pursuit is known as entrepreneurship.

Basic Axioms.

The general framework for a theory of marketing competition is based on Carman's serious attempts to deal with this issue. He suggests several axioms:

1. Marketing systems may be operationally independent in space, but the firms may be operating in multiple geographic markets.
2. Firms may be operating in several markets which are not part of a single marketing system.
3. A firm may offer a wide product line which includes complimentary and substitute items.
4. A firm may be selling several brands of the same product; these may be substitutes for one another (Carman 1977, p. 115).

5. Firms have different perceptions of time and space and hence will differ in terms of their planning horizons.

6. Finally, firms have different perceptions about other marketing system participants especially buyers.

Marketing as entrepreneurship.

Marketing competition is based on the exploitation of information. The successful marketing firm is one that is able to manage information in the context of perceiving and exploiting discrepancies in the flows of market information and in the context of creating blockages or obstacles in the flow of market information available to competitors (Revzan 1961, pp. 107-142). This process is made very difficult because it is impossible to accurately forecast market activities. The world of reality is not simply the world of uncertainty described by Stigler (Stigler 1961). It is a more complex world in which the possible outcomes cannot be described by probability distributions. It is the state of "partial ignorance" in which general equilibrium analysis does not exist and in which decision making purely by mathematical terms is impossible (Loasby 1976, p. 218). Competition among firms relates to the "information discrepancies" (mismatches) without reference to expected value calculation, either objectively or subjectively calculated (Alderson 1965, pp. 60-64).

Marketing firms must compete in an environment of "partial ignorance" and by doing so, each firm, composed of totally unique resources, will have different perceptions of market

discrepancies and opportunities. When firms ignore the similarities of both customers and competitors they are behaving in an entrepreneurial fashion. Marketing as entrepreneurship best describes how both firms and customers operate. As Mises has suggested: "Entrepreneur means man acting in regard to changes occurring in the market." (Mises 1963, p. 254). If Alderson's heterogeneity is accepted as a reality, then marketing competition is about decision making under ignorance in which participants have no or limited ideas about the future. Since action is directed toward influencing the future, even if "the future" is simply the next instant, their action is affected by every correctly or incorrectly anticipated data change between the initiation of the act and the period toward which the act is directed, ... "T(he) outcome of action is always uncertain action is always speculation" (Mises 1963, p. 252).

The Behavior Of Marketing Firms

The central issue

The central issue is market participation. Traditional economic theory and some marketing theory assumes that all buyers are at all times participants in the market. In the economist's view the failure to participate, that is purchase, is determined by differences in price, namely, between the price at which a product is offered and the reservation price of the buyer. What is more correctly the case is that consumers are not continual participants in markets (price is not the factor which determines participation, need is). Consumers are "in and out" of markets

as a result of their desire to satisfy certain wants. Price does not determine want satisfaction as economic theory would have us believe; rather, satisfaction stems from the more complex phenomenon of matching wants with market offerings and especially the expectations of offerings over some period of time.

Sellers are also continually in and out of markets or more correctly have different perceptions about the various markets in which they exist. A complex marketing firm does not have an even occurring set of resources to allocate to all markets and in reaction to all competitive situations. For one reason or another the firm may be able to take a larger market share against similar competitors in one market but not be able to take a similar position against similar competitors in another market. The fact that this takes place through time and over space suggests perceived differences exist among decision makers in relationship to the activities in which they are engaged. One firm may simply choose to ignore a competitor or an environmental circumstance in one market while reacting strongly in another market. Because no two firms are the same and because no two decision making units within firms are the same, the behaviors which we can expect will be different in each of the various situations. Market participation is not as uniform as commonly accepted in economic theory. There is a dynamic environment in which firms with differing resources, with differing perceptions of one another, and with differing perceptions of consumers are attempting to occupy time and space. Marketing analysis has not significantly attempted to understand the decision making pro-

cesses involved in market participation either from the point of view of the seller or from the point of view of the consumer.

Markets are much more open than traditional economic theory suggests. The assumptions about consumer and competitive behavior do not meet the tests of reality. Marketing firms do not behave in the way economic market morphology suggests. In the perfectly heterogeneous market, "each market segment of demand can be satisfied by just one unique segment of supply" (Alderson 1965, p. 29).

Since firms can rarely be certain what price is "right" or what product offering is "right," they must seek answers in markets which are usually open to entry from competing suppliers many of whom will not offer similar products (Reekie & Savitt 1982). To the marketer this means that in order to maintain behavioral loyalty the process of demand molding must be undertaken and maintained. The process must be implemented even for the most recent want satisfying experience. Marketers generally understand this proposition since this is basically their characterization of demand. It is not a one time activity, but a flow of activities over time. The public policy maker, unfortunately, has confused the molding of demand and the resultant market share as monopolistic or anticompetitive behavior when indeed it is more correctly highly competitive behavior.

Market dynamics.

Buyers and sellers enter and exit the market at different times and for different purposes. Any market share measure-

ment will include only those individuals who are actively offering goods and those individuals who are actively searching for goods. It will include those who have found satisfaction. To argue that there will be an "averaging out" of the numbers over some series of measurement points is not acceptable. The dynamics of market behaviors on part of both buyers and sellers will not allow for that assumption; and, in any event, since we know little about the future it is unreasonable to extrapolate from the past to the future. What is measured in the past then is quite incomplete. The argument from the public policy point of view is that brand loyalty exists over long periods of time for specific individuals. That assumption is most interesting since even the most ardent believers of brand loyalty readily admit that stability in market shares may not necessarily mean that there is a great amount of brand loyalty at the individual consumer level. Brand loyalty is seldom as strong as the marketer would like to believe and market share a great deal more difficult to maintain than the regulator would like to believe.

The inculcation of buying habits means a repetition is not so simple when a number of equally determined advertisers are striving for the same result. Brand loyalty (market share) turns out to be highly perishable, and each brand must gain many new users to offset its losses to others (Alderson 1958, p. 278).

To the extent that it is possible to define the structural elements of a market at a given time, the definition will be based upon perceptions of consumers and of sellers. "Market structure can be defined as the position (strength and weakness) -- as perceived by buyers -- of a firm versus its competitors in a given market." (Wind 1977, p. 164).

Time And Competition

What is time?

Time represents the dynamic movement of events, it describes the actual transformation of one situation into another (Schackle 1958, p. 15). To measure the competitive process by the use of stop-action photography insures that the role of time will not be understood. To the extent that time is perceived differently by different individuals and to the extent that time means different things to different individuals, it is difficult to conceptualize except by the application of arbitrary measures. Time is a continuum in which no point nor series of points can be substituted for the flow itself. For individuals time is broken at the points at which decisions are made (Schackle 1958, p. 20).

Data used in the evaluation of competition reflect the measurement of time in a single year. A year is an arbitrary measurement for the purpose to which it is put, namely, the measurement of economic behavior. It is arbitrary because it assumes that the individuals who participated in the decision making process make all of their judgments based on the calendar year. While individuals may have to account for their activities on a calendar year basis, that is different than saying that they operate or make decisions on such a basis. Indeed some firms choose to operate on years that differ from the accepted calendar and for some purposes governments define their years on bases which are not consistent with the known calendar. The decisions

of individual firms do not relate to one another on a time continuum.

It is critical to recognize that individuals and firms do not perceive time in the same way. Their plans are based on expectations about the future and to the extent that everybody has different expectations about the future there will be different perceptions about time. It is important to realize that in spite of similar time measures, not all firms are in the same place or sequence in time at "the same time." Time measures are analogous to instant photographs; they provide a statement of what is caught at a particular "point in time" but they do not give information as from where the behavior has come. Neither do they predict where the behavior will go or where the next decision will take place.

The dynamics of time.

It is difficult to show the dynamic nature of events over time on the printed page and it may be fair to say that they really can only be seen directly or through the use of a motion picture. A graphic representation leads in most cases to a static description of the events and even the assumed dynamics of a mathematical expression are a poor surrogate to the motion that time takes (Forrester 1961).

One means of illustrating the problem of the dynamics of time is to use the product life cycle curve. In Figure 1, the individual brand cycles for several firms are shown. They represent generalized statements about where firms have come from and

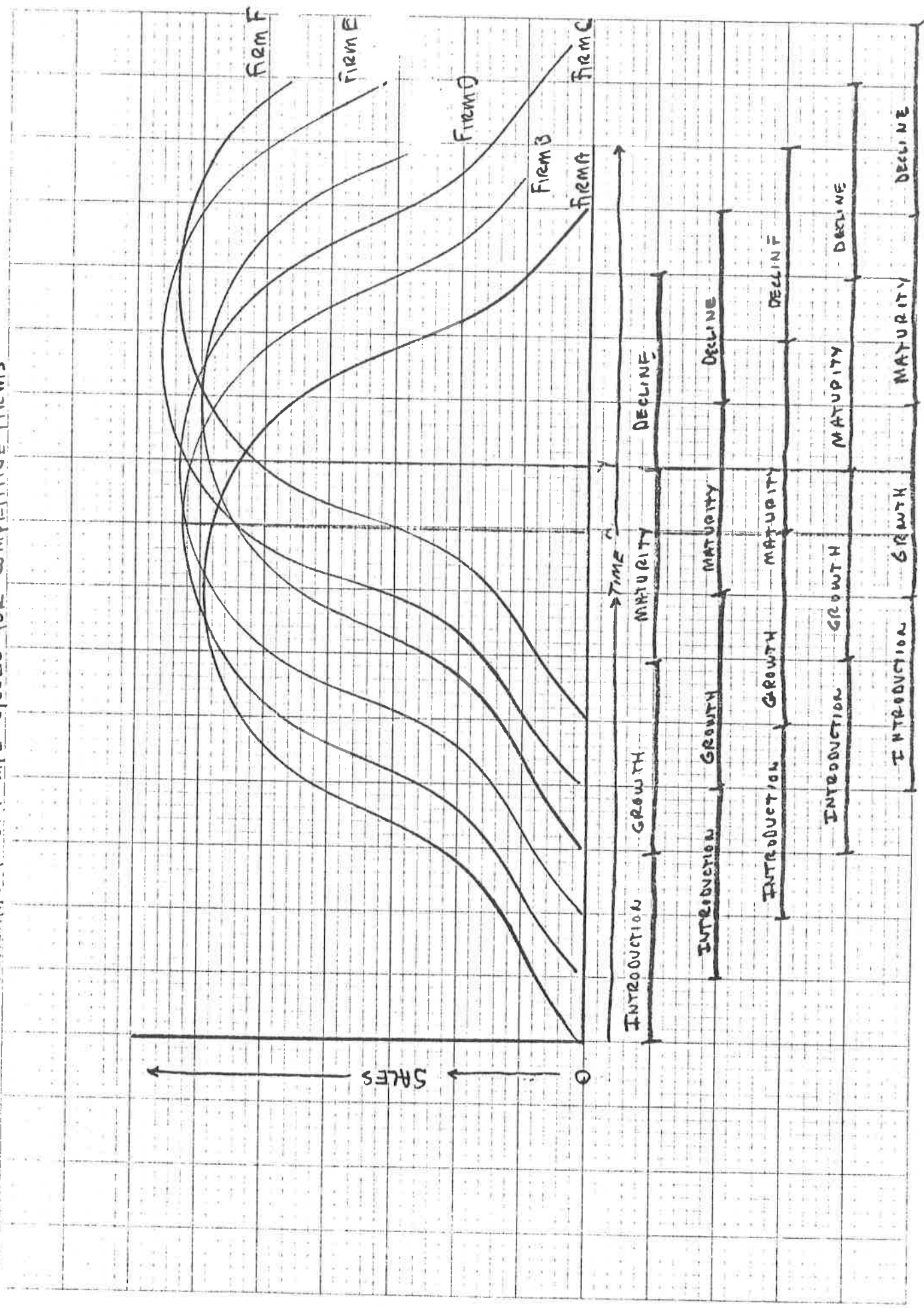
their plans as to where they are going. These plans are based on the perceptions of decision makers about the future.

(Insert Figure 1 about here)

Assuming that all firms have the same behavior in regards to time except the starting point, we find that any measurement will not define the state of the market and market competition unless both the past movement and future expectations are taken into account. At point x, three firms are in different stages of the cycle; some are within different stages of the same stage, namely maturity, and two are in different stages of growth. At point y, firms represent decline, maturity and growth. What we see is that the firms even at the same time are in very different positions; hence it becomes quite arbitrary to assume that specific comparisons can be made in regard to the state of competition. When the analysis moves to one level beyond the static comparison, we find that marketing firms will be managing their variables differently.

A static analysis has been presented in the theoretical work of Gosta Mickwitz, the Finnish economist. Using product life cycle he argues that there are different responses in the competitive process as firms move through the cycle and that each of the responses have different orders and different elasticities (Mickwitz 1959, p. 58). While he relies upon traditional economic tools which distract from the present thesis, he is arguing for the point that individual firms will have very different

POTENTIAL PRODUCT LIFE CYCLES FOR COMPETITIVE FIRMS



10 Squares to the Inch

responses to the behavior of others. These are the result of the individuality of the firms and the fact that all firms, even at a given point in time, have different positions on their path through time.

To the extent that the cycles depicted in Figure 1 are no more the generalized patterns, descriptions of specific firms (a collection of firms) will be more varied. Any measurement will be imperfect. Life cycles will be highly irregular because there are substantially different perceptions about time. Simply, all decision makers, even in the same firm, do not treat time in the same fashion. Any attempt to use time measures which are artificially imposed will result in inaccurate measures about the state of competition (Whitrow 1975). The planning process for each individual firm is not the same. The starting point, the decision period, the time it takes to make a decision and the time the implementation and operation of the decision take are all different for all firms.

Changes in behavior over time.

Because time is different in marketing competition it cannot be evaluated with traditional tools. Elasticity which is particularly seductive since it appears that time is explicitly included is of little value. There is a time gap between a change of a price by one firm and the response of another. That change, of course, may not be in terms of price at all. Depending on where the firms are in their respective life cycles, there may be no response at all. More importantly, there may be no

response from buyers in the market that can be measured by elasticity.

Indeed since we have basically defined competition in terms of the perspective of buyers, elasticity cannot represent the success of competitive behavior. This stems from the fact that buyers may have different perceptions about the competitive process and especially, as we shall see, as to who are the firms which are offering competitive merchandise. Some economists have recognized the possibilities of a variety of competitive responses of firm behaviors and have made allowances for them in the measurement procedure. Weintraub, for one, has provided examples of price cross advertising elasticity. The argument can be extended to all of the marketing variables although the extension exercise still falls short of providing an adequate measure of the complexities of competitive behavior. (Weintraub 1964, pp. 240-242).

Concepts applying elasticity usually do not include a good description of the points at time at which firms are found nor do they clearly establish time periods. A firm at the saturation stage of product life cycle might totally ignore the price cutting of a firm who is in the introductory or growth stage. More importantly, a consumer may ignore the price reduction as well. Even if it is recognized, there may be unmeasurable "nonprice" responses. The key is that consumers may simply ignore the change in price or change in any marketing variable because for the time being they are not participating in the market.

While economists have long worked with the concept of cross elasticity of demand, the concept has severe empirical limitations when used to define the relevant market or marketing. Multi-dimensional scaling now permits us to define relevant markets using consumer perceptions -- a major contribution (Carman 1977, p. 151).

Any measure which is to correctly capture marketing competition must include time as defined in this discussion. At the most general level, marketing strategies are defined in market position or market share over some individually defined period of time (with the exact calendar period varying from firm to firm). A more representative concept for measuring competition is plasticity. It goes beyond the notion of stretching which is found in elasticity (expansion and contraction) and reaches toward the concept of molding. Plasticity, a process of fluidity, refers to the molding or "form giving" process often referred to as "demand shaping." It incorporates time since in order to create shape there is a need for a time to pass. It also recognizes that once shape takes place that it is subject to change or reshaping on a continual basis. Plasticity is a flow concept because of its dependence on time and because the shape is fluid. Plasticity implies constant flux. More analysis of plasticity is needed. Ironically, plasticity has appeared in economic literature though its reference point is to marketing analysis.

Much less attention has been devoted to the fact that man can be remolded into quite different form. The investigation of plasticity of demand has generally been left to the market analyst rather than to the economist (Penrose 1958, p. 81).

Summary.

Time is an essential aspect of defining marketing competition. Suppliers and consumers have different perceptions about time and hence organize their behavior accordingly. Because of that principle, market participation is not a continual function. Firms and consumers move in and out of markets. Competitive behavior, responses to consumers needs, responses to competitors and responses to the environment comes forth in a regular way and without regard to the hypothesis of interrelatedness found in traditional industrial organization analysis.

Space And Competition

What is space?

Space is the interval between points and objects. It represents a static concept when time is held constant; hence, we can talk about two retailers in the same shopping center. Space also implies movement from one point to another; movement involves time (Lloyd and Dicken 1977, p. 29).

For marketing competition the dynamic aspect of space is the primary issue. The secondary issue is the decision maker's perception of space. Each individual will necessarily have a different definition for space and that definition will change through time. The perceptions of space and the mental images of space which are formed stem from information flows which are received by individuals (Gould and White 1977, p. 49). A specification of such images are called mental maps.

Perception of space.

Whether it be the individual or the firm, the perception of space is a highly subjective phenomenon. There are, however, both perceived and real boundaries at any time. The former represent the extent to which the decision maker establishes the points which he uses in discriminating between relevant and irrelevant point. This is simply cognition and called cognitive space. It may encompass vast areas or relatively limited areas. These definitions will vary from product to product and behavior to behavior. We all know of individuals who are thought to be provincial because their spatial boundaries are limited. The same is true for firms. The fact that all firms do not enter the same markets (points at which buyers are located in time and space) cannot be argued on the basis of economic factors alone. Cost functions by themselves do not set spatial boundaries.

Further, a clear distinction must be made between the perceived or behavioral environment and the objective environment in which firms will compete. The behavioral environment represents that segment of the objective environment which is perceived by the individual or firm; it is that part of space from which information signals are received and interpreted by the perceptual mechanisms of the decision maker. Only a small proportion of the information transmitted from the objective environment is received, "it is this that determines the nature of the individual's behavioral environment, and it is this and only this, that is relevant to purposeful behavior" (Lloyd and Dicken 1972, p. 138). Events, phenomenon, or places outside the be-

havioral environment have no relevance to, and no effects on, conscious decision making.

Each individual and firm will have an unique region, that is, a defined perception of space. These regions are confined at any point or in any sequence of time points by a domain. A domain is an area which has time and space dimension which incorporates performance of specific activities or functions. There is a temporal hierarchy among domains. Certain activities must be performed before others. Each individual or firm has a multi-dimensional set of domains. These domains are also characterized by power or superiority as well as hierarchial order. The net result of this is that some individuals and firms will be able to affect the functions of others; "those who have access to power in a superior domain frequently use this to restrict the set of possible actions where permitted inside subordinate domains" (Pred 1973, pp. 42-43).

Every firm is surrounded by an environmental frame or pattern of resource and activity alternatives that must be dealt with if want satisfaction is to take place. These alternatives are unevenly distributed in the Aldersonian sense and they are known to the extent that information seeking behavior takes place. They are relative to the individual and individual behavior can generally be characterized to the extent that it is either geocentric or ethnocentric, that is, the degree to which the individual or firm is outward looking or inward looking (Perlmutter 1967, pp. 33-44). The extent of the behavior depends on the individual perceptions, the availability of information,

which in itself is dependent upon the outward or inward search behavior, and the available resources. The movements of a firm through space can be traced historically but its future cannot be predicted. Statements about the hierarchy of domains over firms can be made though these are estimates at best. An example of this is the life of the individual:

Thus, in earning a living and filling his informational, social and recreational needs and wants each individual wanders over an individual path which commences at a birth point and terminates at a death point (Pred 1973, p. 37).

In the search for want satisfaction, individuals will follow more or less repeated rhythms within a known sequence of paths, however, because of changes in their environments and their perceptual skills, individuals will make sudden changes in their paths. Such changes will not be common to all on an "a" priority basis.

The spatial outreach for individuals or for firms is a highly complicated issue because of the fact that each marketing function has unique qualities. In traditional economic theory, space for each firm is assumed to be common for all firms in the market. Indeed markets in their geographical terms are defined in such ways. In public policy discussions the concept of "relevant geographic market" is widely accepted. It is based on the cross elasticity analysis with minor adjustments (Kaysen and Turner 1959, pp. 27-28). The problem with this approach is that it demands quantum leaps in faith about how market boundaries are defined by business firms. This is, as we have seen, a complicated process and to rely on a market defined solely on something called a sales territory is not helpful (Benson 1980).

The theory of interregional marketing.

A more appropriate approach to the definition of space for marketing competition is found in the theory of interregional marketing (Savitt 1980). It is a beginning point for the integration of the realities of marketing competition. Grether argued that:

The behavior of the firm should be investigated not only in a price or marketing sense, but under the conditions of its physical and social environment, in its determination of its location, its spatial outreach in selling and buying, and its relationship in the marketing channel with suppliers on the one hand and buyers on the other (Grether 1952, p. 118).

The application of interregional marketing is accomplished by recognizing that firms have individual preferences not only for locational decisions but for marketing extensions. That is, firms, as is the case for individuals, have preferred locations for the center of their operations and also have secondary, but no less important, areas for the performance of other specific functions. An individual may live in a large city because that is where employment is found and at the same time take vacations in the mountains or at the seashore. Likewise a firm may locate at one point because of the proximity of raw materials or the proximity to financial centers. These decisions may not always appear rational to the observer but to the firm or individual they may be rational because of their perceptions of space.

Studies in geography suggest that space preferences are made on highly impressionistic grounds (Lloyd and Dicken 1972, p. 154). The individual firm and the individual consumer are influenced by their mental perception; these are their mental maps. Mental maps are descriptions of individuals and their positions in time and space and the relationship of their positions with those of other individuals and other institutions. The locational preferences and the extension of these preferences which individuals reveal result from information which has either been brought into their span of awareness or which they have actively sought out. Preferences are also affected by spatial experiences and expectations about spatial characteristics. These statements neither represent truth nor are to be taken as true statements; they are subjective statements about the ordering of items in time and space. There is a mental map of each individual and for each firm. The aggregation of the mental map for an organization is a complex phenomenon insofar as it represents all of the individuals in that organization.

Spatial competition.

In terms of a competitive perspective, and to the extent that we can agree to which are firms are in competition with another, each firm will have a different mental map or description of its spatial outreach. These maps will be highly differentiated among the firms to the extent that individual firms describe the future in radically different terms. Long range planning in regard to spatial areas for one company may be five

years while long range planning for another may well be ten years. The potential area of spatial competition (an explicit aspect of temporal competition as well) will vary greatly. This is in part the explanation as to why there is great variance in market participation. Some markets are simply not perceived.

Information for decisions comes from personal observation and interpersonal communication, both of which have a distinct distance decay function. That means that the individual knows more about spatial choice in a local area rather than a regional area, national or international area. While larger organizations have greater numbers of individuals than smaller ones, this does not necessarily mean that they will have a wider set of perceptions of space. There may well be a firm base perception of space which influences individual decision makers within the firm regardless of their own personal perceptions of space and hence, these perceptions of spatial possibilities will affect the degree to which firms and individuals actively participate in markets.

This means that there will be differing levels of rivalry among firms over any spatial plane. Some of that rivalry will be expressed in direct coverage or competition, that is, for consumers located at the same point. Some of that rivalry will not be found in the overlap area. To make general measures of spatial competition is inappropriate because each firm will have different patterns of outreach (market participation). All firms in a spatial sense are monopolist for part of their spatial domain, all firms are engaged in rivalry in some part of their

spatial domain, and all firms have gaps in their spatial domains, that is, areas that they either do not perceive to be important or simply do not perceive.

In the application of the spatial domains to the competitive process it is important to recognize that these maps or domains change frequently. There is a continual flow of new information which directly affects the perceptions, and as perceptions change, decision makers respond react. Because of the nature of information and the perception of the strength of that information the responses may not always end in direct competitive action.

Summary.

Space also is an essential aspect for defining market competition. Suppliers and consumers have different perceptions about space and hence organize their behavior accordingly. Because of that principle market participation and competitive reaction is not a continual function. Firms and consumers move in and out of market. In regards to the perception of those markets and in regard to the recognition of the importance of those markets. In the same way that all consumers who live in a given city do not purchase all of their goods and services in that city, not all firms who are located in a given city are in competition with one another. Each group has specific perceptions about the space that it occupies.

Conclusions

The arguments presented in this paper suggest that marketing competition is a complex process, more complex than generally recognized in the traditional model of market behavior. The central thesis is that market participation is not continuous. Both in terms of time and in terms of space firms and consumers come and go in the market process. Any measurement of their participation at a given moment is not reflective of what will happen in the next given moment or in the next given place. Under the guidelines of traditional industrial organization, all firms purveying similar goods and services are considered to be in the same market both in the time and space dimension. The behavior under marketing competition suggests that that set of circumstances is not acceptable.

The present discussion only points the way in which thinking must develop if marketing as a discipline is to provide a theory of marketing competition which will affect the way in which public policy decisions are made. Merger cases as well as other trade regulation activities will take a very different form if the tenets of a theory of marketing competition are applied in contrast to the present application of industrial organization theory and its static assumptions.

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MACROMARKETING: AN INTERFACE

WITH ECONOMIC PHILOSOPHY

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MACROMARKETING: AN INTERFACE
WITH ECONOMIC PHILOSOPHY

Differing economic philosophies imply different roles for Macromarketing. Thus, the economic philosophy adopted by the managers of American society can be expected to have a substantial impact upon the way such managers perceive the methodology, usefulness, and legitimacy of Macromarketing. In addition, the role advocated for Macromarketing by members of the discipline suggests an economic philosophy which may have broad social and economic implications.

In this paper four different economic philosophies are identified together with each philosophy's implications for Macromarketing.

MACROMARKETING: AN INTERFACE
WITH ECONOMIC PHILOSOPHY

Government officials, business managers, and academicians appear to select an economic philosophy and use it to develop programs, theories, and courses of action. The debate over supply-side economics illustrates two aspects of economic philosophy selection. First, a substantial number of disagreements have, at their root, a quantity of differences which are based upon opposing economic philosophies. Second, the impacts of governmental and corporate actions resulting from economic philosophy are significant to society and to the economy.

The role that Macromarketing would play in society varies considerably depending upon the economic philosophy selected by the mainstream of American society or by the managers of society. (Luck 1969), for example, disagreed with the broadened concept of marketing presented by (Kotler and Levy 1969). The outcomes of this discussion have had an important influence on marketing. The origin of the disagreement may be traceable to a difference of economic philosophy.

The purpose of this article is to present one view of the varying economic philosophies and the role of Macromarketing contained within each philosophy. For purpose of discussion, three levels of aggregation are proposed.

Economic Philosophies

Myriad positions have been presented as to the proper role of business in society. Fortunately, these positions seem to gravitate to four modal points. Each of these four philosophies is described and labeled, although the labels used intentionally vary slightly from the use to which they are put by some economic sages.

Laissez Faire

Under the philosophy of Laissez Faire a corporation may exhibit social responsibility only by concentrating on performing its economic functions efficiently. The short-range goals of the firm are profit maximization and operational efficiency. The long run goals are the marginal cost equals marginal revenue function coupled with long run corporate survival through continual efficiency. A corporation which attempts to address social issues fails in its social responsibility. Social responsibility in Laissez Faire is the maximization of consumer satisfaction, production efficiency, and stockholder income. A firm which maximizes profits must also be maximizing consumer satisfaction (or consumers would not trade with it) and stockholder income. Therefore, if the firm maximizes profits it is also maximizing its social responsibility to society.

Government regulation is assumed to have as its primary effect the reduction of efficiency of the business enterprise. Such a reduction in efficiency results in less shareholder income. As such, government regulation is viewed as irresponsible. Laissez Faire is based upon the assumptions of the marginal utility theory of value and pure competition.

Proponents of Laissez Faire are, in the main, bitterly opposed to government regulation except in one area. Some few advocates, recognizing the absence of a purely competitive marketplace, would allow government intervention to return the economy to pure competition.

Profit maximization as an ethical business goal is supported:

"...do corporate executives... have responsibilities in their business activities other than to make as much money

for their stockholders as possible? And my answer to that is, no, they do not" (Friedman 1972).

This view is essentially that money spent on "public" service has to come from corporate revenues or capital in such a way as to damage any corporation which attempts such services. The alternative sources of revenues or capital are the stockholder, the employee, or the customer. In each case, as return on investment or wages decrease relative to other firms, or as consumer prices rise, the intelligent stockholder, employee, or customer will take his capital, skills, or business to a better economic competitor. By engaging in non-economic activities, the firm places itself at a critical disadvantage in the marketplace and may therefore be said to be socially irresponsible.

Some evidence that Laissez Faire is popular among corporate executives may be found in several studies. A survey of chief executive officers of 152 companies was taken to determine what view these individuals held as to their responsibilities. The executives ranked the relative claims that various publics had upon their companies. One hundred twenty-eight ranked stockholders as most important while society was ranked first only three times. (Lorig 1967)

The chief executive officers of Whittaker, Tiger International and Hunt-Wesson Foods participated in a panel discussion on corporate social responsibility. They concluded:

"A view of social responsibility apparently shared by all three speakers would include maximizing profits, obeying the law, and living within a generally accepted framework of ethics and morality... By making a profit and therefore paying taxes,

the company provides resources with which society can take care of additional needs." (Loutzenhizer 1977).

In sum, firms which are the most economically efficient are the only firms which are socially responsible. Any social involvement by a firm other than production and distribution misdirects scarce resources from the economic task of the business enterprise. The result is suboptimal performance of the economic functions of the firm. By paying taxes the firm contributes to social issue solution which is the preserve of government. Profit maximization, and consumer satisfaction are the measures by which a firm can be judged in terms of social responsibility.

Managerial Responsibility

This philosophy rests upon the same set of assumptions as Laissez Faire. (The term Managerial Responsibility has been used by some authors to include all philosophies beyond Laissez Faire.) While proponents of Managerial Responsibility often point out the limitations of the purely competitive model, the conclusions they come to are basically the same, except in one area.

The key distinction between Laissez Faire and Managerial Responsibility is that of voluntary contribution to social issue solution. Advocates of Managerial Responsibility at least implicitly recognize that some corporate assets (cash, managerial talent, etc) may be available to most companies in a surplus beyond that which is possible to firms in a purely competitive situation. Voluntary contribution of surplus assets to activities designed to reduce the impact of social issues is acceptable, as long as such contributions do not impair the economic functioning of the firm.

"The prospering corporation can, of course, exercise its social consciousness in various ways. It can lend some of its personnel to serve on community projects on company time, finance the training of the unskilled... It can even do something about pollution on a modest scale." (Chamberlain 1973)

Generally, proponents of Managerial Responsibility do not consider government intervention to be a valid method of achieving societal goals when business is involved in the issue. Nevertheless, government is responsible for the solution of social issues. This would appear to be a serious problem in both Laissez Faire and Managerial Responsibility. On the one hand, all social problems are the direct responsibility of government. On the other hand, government should not regulate or restrict business. Such a system, if fully implemented, would seem to guarantee that social problems created or exacerbated by business would automatically fall short of constructive solution.

Proponents of Managerial Responsibility do not advocate a return to pure competition. Also, many different approaches to voluntary social contributions are proposed. The limits placed on such contributions are stringent.

"As long as the business firm remains an essentially private organization... it cannot accept general responsibility for problems that lie any appreciable distance outside its traditional economic concerns." (McKie 1975)

Business Efficiency Versus Social Necessity

Those who advocate the philosophy of Business Efficiency Versus Social Necessity view the social responsibility of the private sector as one of trade-offs. The economic goals of business should be forwarded. At the same time government has an obligation to intervene and regulate if the common good is advanced.

The conceptual distance between Business Efficiency Versus Social Necessity and Managerial Responsibility or Laissez Faire is momentous. The loss of production efficiency and profit and their resultant consequences is viewed as acceptable provided the social issue involved is important enough to warrant it.

"Of course there are sacrifices well worth making if on balance the common good is advanced. Business, for example, should not be concerned with various strictures that will prevent corporations of the future from polluting. When this happens it will not be so much a case of losing legitimate corporate freedom as it will be a case of being required for the first time to follow good practices."

(Samuelson, 1972)

Some business executives are also proponents of Business Efficiency Versus Social Necessity.

"These are but four areas - poverty, culture, international development, and education - where business involvement is substantial... The challenges of managing an efficient profitable business have been combined with the demands of public affairs and social welfare... no other institution [business] offers a greater opportunity for transforming idealism and independence into constructive action."

(Wright 1967)

Business is viewed as obligated to conform to the needs and wants of larger society. At the same time, capitalism is seen as the best form of economic organization. Most of the problems of industrialized society that are associated with economic institutions are perceived to be caused by industrialization, not by the economic structure itself (Votaw and Sethi 1973).

The role of government is considerably expanded in Business Efficiency Versus Social Necessity. Government regulation of business is considered both prudent and productive. As long as the economic sector can provide a reasonable standard of living, social needs and goals may outweigh the perceived needs of the private sector. Nevertheless government remains an outside observer and does not become internally intermeshed with the economic system or its members.

A boundary problem appears to exist in Business Efficiency Versus Social Necessity. Samuelson, among others, clearly places limits upon the types of social issues, the nature of government intervention, and the extent of business social involvement in the social system. Apparently, the out-of-bounds marker is the point at which business efficiency is substantially reduced (Samuelson, 1972). No methodology for a practical identification of such a limit seems to have been developed.

Democratic Socialism

According to the philosophy of Democratic Socialism, technology, economies of scale, and the traditional capitalistic motive of seeking one's own interest cause the development of business organizations that become too large and powerful. Since government's role in society is to protect the weak from the strong, the use of governmental power to

regulate business--or for that matter to reorganize business--is easy to justify. Such a justification can take place independent of business efficiency, profits, or consumer satisfaction (Galbraith 1952).

Capitalism inherently causes an inequality between the demand for public versus private goods or the unbalanced contrast between "private opulence and public squalor" (Galbraith 1958). Because of promotion, public goods such as roads, education, and other socially beneficial products, cannot compete with private goods in the allocation of resources. Capitalism misdirects the elements of land, labor, and capital from the true needs of people and convinces them it is better so (Galbraith 1967).

The unbalanced power of the corporation coupled with the ability to misdirect scarce resources demonstrate the need for central planning. A select body of experts is postulated to know the economic needs of society better than the individuals who make up that society. The organization with enough power to enforce the decisions of the planning board is government. This philosophy is, of course, a fundamental challenge to the market system.

In addition to the fact that the consumer is unable to make appropriate allocation decisions for either him/herself or the economy, the industrial system has no capacity for regulating total demand. This causes problems of such magnitude that the economic system must rely on the state for the regulation of demand (Galbraith 1967).

Socialism is perceived by some to have a major credibility advantage over capitalism. Capitalism's background theme is private greed while socialism's is public good. This creates an inherent suspicion of capitalism's managers and a continuing need to demonstrate capitalism's social legitimacy.

"The doctrine of corporate responsibility was invented precisely to supply this need. The doctrine has proven to be empty. But a technique [such as socialism] in which general and particular publics participate in economic policy making could satisfy a hunger that meaningless fictions only frustrate," (Nossifer 1964)

Democratic Socialism implies the growing together of the large corporations and large government. It implies joint decision-making by these entities who plan for the economic welfare of the citizen, the state, and the economy. Critical industries might become nationalized while other industries could find themselves relatively free of regulation. The most important allocation decisions would be placed in the hands of a combination of government and business planners. Public confidence in the motives of economic planners would lead to a legitimacy impossible in capitalism.

Democratic Socialism suffers from at least three flaws. First, currently existing socialistic societies clearly have serious allocation problems. Second, the complexity of most economies may preclude accurate, predictive planning. Third, a significant gap appears to exist between the planning and the implementation of the plan.

Socialism cannot, however, be lightly dismissed. (Myrdal 1960) discusses economic events that can be viewed as the development of socialism, as does (Gailbraith 1967). Many of these events have already occurred in the American economy. Furthermore, supply side economics is being promoted as a return to capitalistic fundamentals. A dismal failure of supply side economics could provide an impetus toward a further socialized American economy.

Observations

In reviewing the four philosophies of corporate social responsibility several comments are appropriate.

Other economic philosophies besides those presented do, of course, exist, Communism is one example. It seems realistic to limit the interface between Macromarketing and economic philosophy to those philosophies which have been advanced by mainstream American business scholars. Therefore, the entire possible range of economic philosophies was not presented.

The four categories of economic philosophy were constructed by the author and the academic works of individuals were placed into categories without their knowledge or consent. Furthermore, the author does not present the categorization format as the only possible format. However, many authors have written in this area and most of these works can reasonably be fitted into the format presented. Those specific articles and texts cited are those by a representative few of the scholars who seem to be particularly lucid about an essential aspect of a specific economic philosophy.

The four categories of economic philosophy are, in fact, slightly misleading. They are not wholly discrete and tend to blur and blend together at the boundaries. A continuum of philosophical degrees better represents the flow of economic thought than does a system of four distinct philosophies. As one moves along the continuum from Laissez Faire towards Democratic Socialism a number of changes occur. As one moves toward Democratic Socialism from Laissez Faire:

- * The role of government increases substantially.
- * The goal of the firm changes from profit maximization and production efficiency (Laissez Faire and Managerial Responsibility) to efficiency constrained by social needs where "acceptable" levels of

profit are advocated (Business Efficiency Versus Social Necessity) to social profits in which retained earnings and dividends may become state property and reallocated as the state chooses (Democratic Socialism).

- * The degree of business freedom to make decisions declines.
- * The social involvement required of business increases.

It should also be observed that considerable variance of thought also occurs within the general outline of each economic philosophy.

Macromarketing And Economic Philosophy

Macromarketing must be viewed within the confines of economic philosophy because the appropriate role of Macromarketing varies considerably across the spectrum of economic philosophy. As the role of Macromarketing varies, so will the responsibilities assigned to Macromarketing by different publics change. In advocating a particular role for Macromarketing, macromarketers should recognize they are proposing both an economic philosophy and a set of responsibilities with which Macromarketing will be associated.

(Lazer and Kelly 1973) provide a commentary in which Lazer lists some of the social responsibilities of marketing including: urban renewal and development, pollution abatement, culture and the arts, government relationships which extend well beyond anti-trust laws and other regulations, and employment and the provision of opportunities. Such a discussion inherently implies an economic philosophy and a particular image of the proper role of what has since become Macromarketing. (Luck 1969) suggests that marketing should remain confined to a traditional business approach. This too implies an economic philosophy, a set of responsibilities, and an image of the proper role of marketing, different though it may be from Lazer's.

In planning the future course of Macromarketing substantial thought should be given to the impacts that role definition will have on marketing, Macromarketing, and the economic environment of American society.

Another perspective concerning the role of Macromarketing exists with respect to the managers of society. Managers of society select and advocate a particular economic philosophy (e.g., supply side economics). Such an economic philosophy may either harmonize or conflict with the role selected by macromarketers for Macromarketing. Alternatively, it may be proposed that the role of Macromarketing may vary considerably depending upon the economic philosophies of society's management. Either way, some consideration should be given to the approach macromarketers should use with respect to society's managers. Some structure may be applied to this discussion by suggesting Macromarketing roles appropriate to each economic philosophy.

In addition to differences in roles across economic philosophies, the specific task of each level of aggregation of the economy is altered within each economic philosophy. The following presentation tentatively identifies the differing tasks and roles appropriate for three levels of aggregation. A distinction is made between micro level, industry level, and macro level. Micro level refers to problems of Macromarketing uniquely experienced by individual firms. Industry level applies to Macromarketing issues that are commonly shared by members of the same industry. The industry level is separated from micro levels because it seems reasonable to suppose that each member of an industry experiences some Macromarketing problems universal to other members of the industry but at the same time may also be facing firm specific Macromarketing issues. The goals of each level of aggregation, the definitions of social responsibility, and the

role of Macromarketing with respect to the economic philosophies are summarized in Figure 1.

In the philosophy of Laissez Faire, business is viewed as restricted to economic concerns. As a result, Macromarketing is similarly constrained. The role of Macromarketing would be limited to the study of economic variables which would enhance the standard of living within society and further growth of the economic system at the macro level. At industry level the macromarketing concerns would include industry growth, competition, and the efficient delivery of the industry's production. At the micro level the Macromarketing role is confined to traditional marketing management issues.

Although the Macromarketing variables of interest in Laissez Faire tend to center on traditional marketing management it is still appropriate to present Macromarketing as a field of study. Under Laissez Faire Macromarketing would take on the role of exploring aggregate factors of the economy to a greater extent than marketing has done in the past.

Macromarketing's role does not substantially change as one moves from Laissez Faire to Managerial Responsibility. In Managerial Responsibility business organizations, including businesses and organizations formed with close ties to business, voluntarily help to reduce the impact of a limited range of social issues. Macromarketers would contribute some time and effort to these issues applying traditional tools and techniques to the problem where appropriate. At the macro level national business organizations would be likely to concentrate on issues affecting the entire society. At the industry level industry related organizations would probably study issues of an industry specific nature. At the micro level, social issues of interest to the individual firm would be examined, probably with the

THE ROLES OF MACROMARKETING

FIGURE 1

MACRO	<u>LAI SSEZ FAIRE</u>	<u>MANAGERIAL RESPONSIBILITY</u>	<u>BUSINESS EFFICIENCY / SOCIAL NECESSITY</u>	<u>DEMOCRATIC SOCIALISM</u>
Goal of Economic System	Efficient delivery of living standard	Efficient delivery of living standard	Successful delivery of living standard and partial social issue solution	Social welfare and acceptable living standard
Definition of Social Responsibility	Economic growth	Economic growth and voluntary contribution	Economic stability and social needs reduction	Social growth
Role of Macromarketing	The study of macro economic variables to increase growth and efficiency	The study of macro variables and application of marketing techniques to society	Study and solution of significant social issues/ macromarketing tools and body of knowledge	Planning and implementing of the national plan/macromarketing tools and body of knowledge

FIGURE 1 (continued)
THE ROLES OF MACROMARKETING

INDUSTRY	<u>LAISSER FAIRE</u>	<u>MANAGERIAL RESPONSIBILITY</u>	<u>BUSINESS EFFICIENCY/ SOCIAL NECESSITY</u>	<u>DEMOCRATIC SOCIALISM</u>
Goal of Industry	To compete with members efficiently	Industry competition and voluntary social issue reduction	To compete and reduce socially significant issues/ successful product delivery/comply with govt. regulation	Acceptable economic products and fulfill national plan/deliver social goods
Definition of Social Responsibility	Industry growth and efficient delivery of product	Industry growth and product delivery/charitable contribution to social problems	To reduce industry specific issues/ successful product delivery/reduce govt. mandated issues	Meet national plan goals and reduce social problems
Role of Macromarketing	Study of industry to increase growth and efficiency	Study of some social problems using marketing tools	Reduce social issues caused by industry/ macromarketing tools	To implement national plan for industry/ macro-marketing tools

FIGURE 1 (continued)
THE ROLES OF MACROMARKETING

	<u>LAISSEZ FAIRE</u>	<u>MANAGERIAL RESPONSIBILITY</u>	<u>BUSINESS EFFICIENCY / SOCIAL NECESSITY</u>	<u>DEMOCRATIC SOCIALISM</u>
MICRO				
Goal of Firm	Profit maximization and survival	Profit maximization, corporate survival, civic contributions	Reasonable profit and social issue solution	To cover costs and meet planned goals-- acceptable products
Definition of Social Responsibility	Production efficiency, consumer satisfaction	Production efficiency, customer satisfaction, charitable contribution	Effective delivery of products without causing social problems/solving social problems directed by govt	To reduce social problems and meet planned goals
Role of Macromarketing	Traditional marketing management	Traditional marketing management and civic improvement	Marketing management and reduction of social issues caused by firm/solve other issues as directed by govt.	To help firm fulfill social and economic goals

help of interested civic organizations. Government would request the involvement of business in social issue solution.

In **Business Efficiency Versus Social Necessity** the field of Macromarketing could reasonably be expected to design some tools, techniques and theories that apply to Macromarketing issues, even if they do not have an immediate use for traditional marketing management. One area of study should include the proper definition of social issues to determine which social issues are appropriate for economic units to address. At the macro level issues of national significance would be evaluated. At industry and micro levels Macromarketing would be likely to concentrate on problems caused or exacerbated by the specific industry or firm. In addition, government would add other types of social issues to the business responsibility through either regulation or by request.

As a body of knowledge, Macromarketing would attain its greatest importance in Democratic Socialism. Macromarketing at all levels of the economic structure would be involved in planning the operation of the economy or economic unit and in the planned allocation of resources and products to society's members. At the macro level Macromarketing would plan and implement economic designs. At lower levels Macromarketing would help each unit comply with the macro plan.

Conclusion

The responsibilities of Macromarketing and macromarketers vary significantly across differing economic philosophies. In advocating a particular role for Macromarketing, macromarketers should be aware of the implications that the specific role has for the structure of the economic and social system.

Equally important is the economic philosophy adopted by managers of society. Macromarketers will be expected to work within the constraints, or accept the degree of responsibility, suggested by the philosophy of the manager. Miscommunication between social managers and macromarketers as a result of philosophical differences could result in serious consequences for the future of Macromarketing.

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MARKETING THEORY AND MACROMARKETING

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MARKETING THEORY AND MACROMARKETING

Abstract

Marketing stands at crossroads of either developing a socially relevant perspective to help with contemporary social issues or limiting itself to traditional boundaries. This paper discusses the advantages marketing has over other disciplines in producing a relevant perspective, and its inherent limitations due to an emphasis on exchange as the generic concept. A definition for macromarketing is proposed and its elements discussed for an attempt at developing a new perspective.

the area of marketing with continued interest in a more social science oriented perspective. (2) The social visibility and impact of marketing activities and marketing systems draw criticism and interest from many sections of society, intellectual and institutional. As a result, marketing scholars have not been able to isolate themselves totally from social problems and phenomena.

The crisis in social science disciplines is rather common today, and not limited to marketing. In every social science discipline the current paradigms and schools are being questioned and criticized for a lack of relevance to and understanding of social, economic, and political phenomena. To give just one example, the poverty of the economic theories in explaining stagflation could be mentioned. There is a growing popular sentiment that science disciplines and scientists are isolated in their own little problems and solutions without a real understanding of overriding social needs and problems. Scientists are being criticized by popular movements for, for example, being engrossed in solving technical problems of nuclear power rather than studying its positive and negative consequences for society and the needs of human beings. The social scientists are under further criticism for being greatly involved in small, inconsequential studies for ease of finding data and methodology, while neglecting socially relevant but long-term, difficult conceptual developments.

discipline can achieve such a perspective without making its purpose societal, and its audience many different groups and sections of society. Since the dominance of a management orientation in marketing, the discipline has been limited in both respects. Its audience has been limited greatly to managers of business, and its purpose to the control of subjects of management.

Development of a Socially Relevant Perspective in Marketing

I begin this discussion with two basic, and I believe very significant, premises. One is that, as mentioned earlier, social science is a whole and cannot be compartmentalized. Excluding any of the major classes of variables from our frameworks for sake of high methodological preciseness within limited scopes will be at the expense of a real understanding of social phenomena. What social science needs is not such limitations of classes of variables into disciplines, but distinct "perspectives" or "bases for launching studies" as human experience necessitates new fields of understanding.

A second premise is that human society today needs such a new and fresh perspective to understand and deal with the overriding contemporary problems that are becoming ever more significant. This paper will try to discuss some of the possible elements of this perspective, some shortcomings of marketing theory in this respect, and how macromarketing and the way it is defined and approached can influence its social relevance.

Different from the past few centuries, the needs of human society and urgency for growth and development cannot any longer

and the nature of human beings have multi-dimensionality and the major dimensions are most likely economic, social, biological (physical, chemical), ecological, psychological, and political. Definitely, human beings also have dimensionality in time and space. Since all these dimensions are historically ingrained human dimensions, there are needs to be satisfied within all dimensions, and a balanced satisfaction of all dimensions is probably required. Unbalanced satisfaction in these dimensions will lead to problems of the kind we confront today. A schematic representation of this idea is given in Figure 1.

[Figure 1 about here]

These dimensions are not, of course, totally independent of each other, however, they do have distinct characteristics. Figure 1 tries to depict that an over-emphasis on one of the dimensions can lead to an unbalanced treatment of human beings and result in many different problems.

Before going on to further discussion of the relevance of marketing theory, it might be useful to very briefly try and define these dimensions. It might be useful to remind the reader that these dimensions are dimensions we can perceive and distinguish based on our history and accumulated knowledge. However, there may be more dimensions of which we are unconscious at this time in human history.

Dimensions of space and time are, at the present, quite constant across all human beings, and very limited, given their dynamic character. As our control over these dimensions becomes

Is Exchange the Proper Generic Concept for Marketing Theory?

The emphasis on exchange as the generic concept of marketing has a relationship to broadening marketing, not only in terms of authorship (Kotler and Levy 1969; Kotler 1972) but also ideologically. In broadening the application of certain methods, techniques and perspectives in one area to others, one needs to find some kind of generalized basis. It is no secret that the traditional domain of marketing has been in business management. The position of marketing departments in colleges and universities will attest to that. It is also a fact that marketing as a discipline has developed in the advanced capitalist economies, especially in the U.S. This background is still hurting the universality of marketing concepts (Dholakia, Firat and Bagozzi 1980). As a result of its traditional domain and its roots being in market economies, there is an ideological tendency in marketing to adhere to exchange as the means of need satisfaction. Given this tendency, broadening marketing efforts do remain limited to extending the technology of facilitating, creating, resolving exchanges, since exchange is exchange in every context. Thus, the effort to define the general core concepts related to exchange relationships (Bagozzi 1974 and 1975). The limitation of the broadening effort to an operational domain has been criticized (Spratlen 1972; Sweeney 1972; Tucker 1974), however without much impact. Even those scholars who realize that exchange is only one of many means of need satisfaction still except limiting marketing to studying exchanges (Enis 1973).

unscientific as the Freudian ego (Marcuse 1970), or the Skinnerian operant conditioning (Chomsky 1973).

Furthermore, the emphasis on exchange is the result of the dominance of economics and the market system in contemporary capitalist society. Since in this presently very domineering sphere of human life, relationships are based on exchange (money for goods, etc.), the tendency to perceive exchange in every walk of life is understandable, but not scientific. Just for the purpose of discussion, I would like to give an example: consider a group of politically oriented students trying to persuade Congressmen to pass a bill that will, in their minds, help the poor in some way or another. Is this exchange, and is there a problem of market response in this situation (Kotler 1972)? The diehard exchange protagonist will say "yes," arguing that the least for what they are exchanging is the satisfaction of seeing this bill through - at once making the assumption that deeds cannot be done on the basis of beliefs or altruistic motives. Even if for such efforts these students were receiving social sanctions and punishment, the exchange protagonist is going to argue that intrinsic satisfaction and rewards (based on feelings that they are doing the right thing) are greater than social sanctions for these people. As can be clearly seen, the exchange protagonist will easily fall into the trap of tautological definitions, never in the end being able to understand and explain beyond such tautological concepts the reasons why for these people intrinsic

ideological. A study of all forms and means of need satisfaction provides a more scientific and universal basis for marketing (Dholakia, Firat and Bagozzi 1980). I shall devote the rest of this paper to how this basis for marketing can be put into a socially relevant perspective, and how "macromarketing orientation" is necessary for this.

Macromarketing and Theory

The need for socially, ecologically, etc. relevant and responsible perspective in marketing has been expressed by scholars before (Dawson 1971; Fisk 1973; Sturdivant 1978). Much of this effort has concentrated on definitions of marketing and its scope (Kotler and Levy 1969; Kotler 1972; Kotler and Zaltman 1971; Bartels 1968 and 1944; Hunt 1976; Arndt 1978; Bagozzi 1976). Earlier I mentioned that macromarketing was the correct area for developing a socially relevant perspective in marketing. As there is an interest and need to develop definitional concepts, my point may be reinforced if the arguments for the point are developed along with a definition of macromarketing.

In more recent efforts, macromarketing has been defined in terms of levels of aggregation, networks of exchange relationships, societal impacts, and total systems (Hunt 1977 and 1981; Bagozzi 1977; Shawver and Nickels 1981; Fisk 1982). Other definitions have stressed the area of study in macromarketing (Firat and Dholakia 1977; Heede 1981). I believe that when taken all together, these definitions do provide a sufficient basis to launch studies in macromarketing that will be socially relevant.

norms, production technology, etc.) and interact with needs considered to be intrinsic human needs or needs that have earlier been generated and transformed by society, to transform them further.

(4) Not only tendencies to equate demand and supply, but also tendencies that disable satisfaction of demand or consumption of supply are proposed for study.

(5) Furthermore, a very important element in the definition proposed is the interest in societal choices which in turn determine the structures and processes under study. These choices are at all levels, from individual consumer unit all the way to social choices.

(6) Finally, a complete study of the structures and processes mentioned will require an understanding and explanation of how the sum of individual, institutional and organization behaviors will influence the phenomena at the societal level, and how societal phenomena will influence individual or institutional and organization perceptions and behavior.

Of all the six elements above, the most controversial, and from a marketing discipline's history point of view, novel one will be the point of view that marketing systems do not form just to satisfy existing needs, but to transform and generate needs. Indeed, marketing systems are not the moving force in transformation of needs, but form to facilitate diffusion and socialization of dominating need perceptions and preferences, given a socio-politico-economic system (Firat 1981). However, it is time

social units that define that society are involved in the definition of goals for the institution and in its decisions. (2) The tools used are different. In the AT&T case, principles used involve variables and theories pertaining to individual actors, be it consumer units or organizations. In the other case, the principles are from Keynesian theory which involves variables defining societal impacts and behavior (such as, aggregate demand). These are the two key dimensions which differentiate between micro and macro marketing management, although, I believe, there will always be a fuzzy and overlapping area in between.

Conclusion

I would like to conclude by reemphasizing some of the points made earlier in this paper. No social science discipline can or should be limited within certain boundaries defined by some school of scholars. Social science is a whole, and when social necessities require, all predrawn boundaries will be broken within the whole social science sphere (Kuhn 1970) and within each discipline to allow for a relevant perspective to develop that will enable studying, understanding, and solving the pressing social issues. If traditional disciplines do not allow such development, because of scholars jealously guarding their traditional limitations, new disciplines will develop. Because macromarketing is involved in the relations between the society as a whole and its constituent units, and as marketing has always been a discipline that integrates variables from all social

Footnotes:

¹As the purpose of this paper is not to extensively review these efforts, but to contribute to them, the reader is referred to the literature, and especially to: Bartels (1968 and 1974), Kotler and Levy (1969), Lotler and Zaltman (1971), Dawson (1971), Hunt (1971 and 1976), Pinson, Angelmar and Roberto (1972), Kotler (1972), Sweeney (1972), Fisk (1973), Enis (1973), Bagozzi (1974, 1975 and 1976), Tucker (1974), Bartels and Jenkins (1977), Firat and Dholakia (1977 and 1982), Arndt (1978, 1979 and 1981), Monieson (1981), and Andreasen (1982).

²Consider, for example, how many consumers perceived a need for, or even had the slightest notion of a TV set before the technology for its mass production was developed and it was available on the market. Yet today, in our buyer behavior models, we begin with the premises that the consumers need a TV set (since 96% own TV sets in the U.S.), and study only the process whereby they decide on a brand.

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EFFICIENCY IN CONSUMPTION

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It is said that business in the United States has gone through the production era, the sales era and then finally arrived at the marketing era.¹ During the marketing era, firms have accepted the notion that they were in business to create satisfaction for their customers. This paper suggests that American business is rapidly moving into the next era, the era of efficient consumption by individuals and households. The organized behavior system is taking charge.

Efficiency is like charity. In principle, no one is against it. Yet when it comes to actual practice, efficiency like charity, is left to others. Efficiency of consumption is the essence of economics -- allocation of scarce resources. Industrial buying and industrial buying behavior have been analyzed in marketing literature to a great extent. However, when it comes to efficiency at the level of the household, though it is very much a part of marketing, it is relegated to personal finance and home economics. It is time those of us interested in macro marketing paid some attention to this topic, just as we have to the topics of efficiency in production and efficiency in distribution.

Almost all consumption takes place to maintain a standard of living. In the United States, for decades we have equated high standard of living to the consumption of a high proportion of economic goods, services and advantages. Such high consumption has been primarily for

egoistic sensation, i.e. of increasing the extent and degree of direct sensory experience. In other words, we have promoted a high scale of living -- consumption of material things -- without paying full attention to the standard of living -- the satisfaction considered essential by an individual or a group.

We use terms such as "consumer" and "consumption." Who is a consumer and what is his status and function in our economic system? This all embracing group, the general consuming group, is for many practical purposes a most elusive and kaleidoscopic body. In speaking of consumers we are dealing with a group which does not close its rank short of the whole community. Yet, interests of consumers are definite, distinct realities which may be differentiated from the interests of individuals in their other capacities. The common interests of individuals is what identifies the consumer. It is the pursuit and realization of these common interests which mark groups of consumers.

The term "consumption" has several meanings. For example, consumption can be related to demand and price theory, spending patterns, rationality of spending and so forth. If "consumption" was merely buying and using goods by "consumers" it would be a passive role indeed in the economic order of our society. Such would be the case in state controlled and centrally planned societies.

In a free enterprise system there is more involved in being a consumer than the passive role just described. The term "consumer" carries with it the thought of activities and interests which manifest themselves in wants and in choices at the marketplace. Such a state of choice places an enormous burden upon the consumer in the free society. Contrary to the popular belief, spread by Vance Packard and the like,

consumers are not that irrational. More than often they are truly organized behavior systems constantly engaged in a sorting activity to seek out what is best for them. Such desire to seek out the best makes consumption an efficient process.

The individual efficiency at the micro level also translates itself into collective efficiency at the macro level. Time and again we have seen the consumer make wise and careful use of the resources which come directly under his control. These same consumers, collectively, make the wise choice of the ends and purposes towards which national resources should be turned. Right now we are going through a similar experience with the consumption of fuels, particularly oil. Consumers, individually and collectively, are switching to fuel efficient cars enabling the nation to conserve energy and at the same time personally benefiting from the switch.

The household, the center for consumption, is run not for profit, but for the comfort, convenience and well-being of its members. But "comfort," "convenience," and "well-being" are vague terms. It is difficult to translate these goals into action at the marketplace, much less in terms of specific goods. The tests of success in the productive process is found in the market and in the results of the exchange process; but the tests of success in consumption, and its attendant process -- expenditure -- are difficult to formulate and difficult to apply. The same difficulties inhibit improvements in the technique and measurement of efficient consumption.

In these inflationary times, maintaining a standard of living while the scale of living is lowered because of inflation, is a real challenge. Households do not divide their budgets into food, housing, clothing,

entertainment and maintenance of social prestige. Instead, the last one, namely, social prestige, combines with and even dictates every other category of consumption. Most of the expenditures must serve two or more interests at the same time. That is why goods are defined as "bundles of satisfaction." A good example is apparel. It protects the wearer, presents the wearer, covers the wearer and even decorates the wearer, in addition to being a symbol of status. How does one maintain standard of living while being forced to accept the lowered purchasing power of his income? The answer is through more efficient consumption.

In the macro sense, a high and progressive standard of living stimulates production and accelerates business activity. It promotes individual and social well-being. Does the attainment of high standard create problems in consumption? Does a higher standard of living mean that every physical item one has in his present inventory will be increased by some common factor? Is it really conceivable that anyone can consume twice as much food or clothing or whatever? The increase is in quality rather than quantity.

The process of consumption may be viewed as a production process, the object of which is to maintain a standard of living, with a high scale of living. The inputs in this process would be the money, time and energy of the household, or the purchasing agent of the household, since the home is usually the center of consumption for most individuals. Efficient consumption would then be the act of achieving the most satisfaction by expenditures of the household's "resources," namely, money, time and energy.

This approach to efficiency in consumption involves two assumptions. First, the consumer is willing to spend time, energy and money insofar

as the satisfaction obtained in exchange exceeds the "resources" spent. Second, money, time and energy have relative values and only so much of each can be and will be spent on consumption. The relative values depend on the goals of the "purchasing agent" and the actual conditions under which one is evaluating one's resources. On top of it the costs of consumption are not of the same relative importance to all consumers.

A determining factor in efficient consumption is the individual's access to relevant information. Modern day consumers require an inordinate amount of information in making intelligent purchase decisions. The quantity and complexity of their informational needs is attested to by the success of such periodicals as Consumer Reports, Changing Times and even Coupon Refunding.

Information on quality standards, product labeling, brand-name comparisons and the number of purchase alternatives available affect efficient consumption. Naturally, the amount and type of information required varies with the individual and the circumstances. Goldman suggests that price knowledge is an indicator of consumer shopping effectiveness. The degree to which consumers are willing to engage in price comparisons depends largely upon the marginal utility to the consumer of each of his resources. Goldman also showed that lower-income consumers tend to display a higher price knowledge level for products than higher income consumers.²

Research has shown that consumer information has a significant effect on increasing consumers' efficiency of choice. Sproles found that this was especially true when the consumer had access to "extended information on competitive product characteristics."³ He also suggested the importance of consumer sophistication as an intervening variable in

product quality and purchase preference evaluations. Thus, a reasonably sophisticated consumer, having extended information relevant to the purchase decision, would be able to compare quality between alternatives, evaluate the product on the basis of his expenditure and his utility for the product, and arrive at the most efficient trade-off of his resources for the product.

It is possible to expand upon the concept of the sophisticated consumer to his long-run responsibilities to be efficient. Rothe and Benson proposed that intelligent consumption was an appropriate alternative to the marketing concept.⁴ In the light of increasing indications that the marketing concept is faltering in its implementation, they suggest a more realistic position would be to define marketing as the "pursuit of intelligent consumption patterns in the marketplace." Accordingly, the fundamental requirements for intelligent consumption would be "information, choice, recourse, and the capacity to decide." Efficient consumption "requires that the individual consumer's consumption reflect an awareness of the critical social problems of resources (scarcity) and environmental pollution."

This implicitly suggests that the consumer realizes that in the long-run, it is to his benefit to consume efficiently. Note also that this necessitates a significant extension of the perspective of the individual consumer. It is partly his personal responsibility to prevent or encourage (by selective consumption) wasteful methods of production. He must now look upon all natural resources as having shared ownership consisting of all consumers. By carefully and intelligently evaluating and selecting his mode of consumption, he is in some small way, able to contribute to a more efficient utilization of the resources available to society. Such awareness goes well beyond ecological considerations.

While consumerism has been an attempt to make businesses efficient and responsible, little has been done to increase these very attributes among consumers. Consumers should be aware that their patterns of consumption have altogether significant effects on the overall efficiency of the system. In the short-run, Buskirk suggests that the consumer may maximize satisfaction by honing his "buying acumen."⁵

While this paper has been limited to a discussion of efficient consumption and upon the ensuing extension to the concept of a sophisticated consumer and his responsibility to be efficient, it should be noted that the very concept of efficiency of consumption is wide. It was not the intention of this paper to examine the various aspects involved in maximizing efficiency in consumption. The very idea of efficiency of consumption is highly personal and there is no reasonable way to measure it.

In conclusion, the success of the marketing concept as it has been popularly accepted and practiced depends on one of the necessary fundamentals of the free enterprise system: a well-informed consumer pursuing efficient consumption patterns beneficial both to him and to society at large.

* * * * *

FOOTNOTES

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Discontinuity in Macromarketing:
A Multidimensional Conflict Manifold

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Discontinuity in Macromarketing: A Multidimensional Conflict Manifold

While a consensus has proven elusive, considerable progress has been realized in formulating a set of global specifications that have given both form and function to a definition of macromarketing. Hunt has suggested that macromarketing is a multidimensional construct that should explicitly recognize marketing systems, the impact and consequence of marketing systems on society, and the impact and consequence of society on marketing systems. Here, a systems emphasis accounts for a "level of aggregation criterion" which allows the inclusion of comparative marketing, the institutional structure of marketing and power relationships. The interests of society provide for recognition of social responsibilities, the role of marketing in economic development, the legal aspects of marketing, and the consequences of marketing on political and social value systems [1]. Acknowledging the evolutionary nature of macromarketing concepts and definitions, Shawver and Nickels argue that "macromarketing is the study of exchange activities and exchange systems from a societal perspective." Implicit in their definition is the notion that the scope of macromarketing include the effects of exchange and exchange systems on regional, national, and global societies; the effects of various environmental influences on individual exchanges and exchange systems; the impact of public policy on exchange and exchange systems; the effects of exchange systems on economic and social development; the productivity and equity produced by various exchange systems; and the comparative study of marketing systems from a societal perspective including comparative consumption patterns [3].

Consensus notwithstanding, by establishing and gradually refining the global

dimensions of macromarketing, parameters are identified which limit the field of study and thereby, helps clarify the focus of scholarly research. Many of the underlying elements of interest enunciated by others intent on defining the role and scope of macromarketing are embodied in the thoughts of Hunt, Shawver and Nickels and, as with any discipline these common elements are the stuff of which definitions are made. Unfortunately, simply recognizing a set of common elements often understates the dynamic nature of the area of study. Only through an understanding of the interaction of these common elements can a definition truly come alive.

One terribly important reality that appears to have been ignored in all of this is conflict and the part it plays in affecting both among and within systems variations. If one is to formulate a comprehensive model of any macromarketing system, it seems imperative that conflict be factored into the equation, for it is ongoing conflict and its resolution that is the most visible and, it might be argued, important byproduct of the dynamic process which has characterized the evolution of macromarketing. The objective here is to examine conflict within a macromarketing context and in so doing, develop a conceptualization of the conflict process that goes beyond the spectrum of conflict by characterizing conflict as a multidimensional, discontinuous and nonlinear phenomenon.

Whether one is concerned with the creation of an organization or with the process of organizational change the product, price, promotion and channel alignments that result can have negative consequences for a diverse set of

groups, both in and outside of the organization. In response, one or more of these groups then take action by trying to encourage strategists to change these alignments in a way that would benefit their constituents. Myriad case histories demonstrate that as the conflict develops and as marketing strategists react and begin to search for mutually acceptable alternatives, still other groups are affected, each with a different agenda and each pressing for a different end and a different product/market alignment as a means to that end.

Perhaps the best description and analysis of this process is offered by Summer. He suggests that organizations go through three stages of conflict: the stage of inception, the stage of elaboration, and finally, the cultural conflict stage. During the inception stage the product/market alignment is the focus of strategists as they attempt to satisfy simultaneously the requirements of those consumers, clients, and resource suppliers directly involved with success on the task performance dimension. Here strategists devote almost all of their time, attention, and effort to deriving a product/market alignment that appeals to their constituencies.

Following the inception stage, strategists then focus on elaborating the product and internal resource alignment into a comprehensive task alignment. Here their efforts are devoted to elaborating, refining, and allocating internal resources in a logical way necessary to achieve the product/market goal. "They experiment by trial and error, adjust their original strategic version, and otherwise commit their attention and energies to task alignment."

It is sometime during the elaboration process that the cultural conflict stage begins to evolve. Here persons inside the organization dispute task alignments by demanding that strategists realign products, markets, or internal resources to achieve certain universal needs typical of persons working in organizations. Strategists, and those in operating positions confront, perhaps for the first time, the reality that task alignments conflict with a variety of behavioral needs. And interest groups external to the organization interact with strategists in a process of political, economic, and social heuristics. They demand that strategists realign products, markets, or internal resources to achieve a wide variety of non-economic objectives [4].

What Summer has suggested is that product/market conflict is natural, it is pervasive, it is ongoing and evolutionary in nature and it follows a prescribed and identifiable pattern of development. Implicit in the Summer model and in other models of product/market conflict is the assumption that the "alignment process" is characterized by a spectrum of potential conflict ranging from passive resistance to change on one extreme to product/market alignments resulting from economic and political revolution on the other. Unfortunately, a "spectrum" is woefully outdated and conceptually inadequate as a model on which to base decisions affecting a wide range of macroalignments and should be replaced by a multidimensional conflict manifold. The spectrum of conflict, as it is commonly portrayed, is single-dimensional, linear, and continuous. While such a model may describe simple conflict alignments, it is just too naive for the complexities of most contemporary product/market alignments.

Evidence for discontinuity in the spectrum of conflict is clearly apparent. Dholakia and Dholakian, in discussing the difficulties in delineating the competitive arena at the macro level, suggest that when large interorganizational systems adopt rivalrous postures, it is very difficult to specify the nature of competition or even to distinguish the "buyer" from the "seller" [2]. What makes this so is that while there may be a clear progression, for example, among EEC product/market alignments or among LDC product market alignments, the jump from LDC product/market alignments to EEC product market alignments is anything but continuous. Indeed, such a shift is the very reason that the concept of competition as it is conventionally used in marketing becomes invalid as a guide to behavior where so many developing countries are concerned. In fact, this discontinuity represents a quantum leap and is the central issue in the debate over product/market alignments between developed and lesser developed countries. As a further example, there is no basis to presume a priori that various geopolitical or geoeconomic targets represent a continuous function, or that a continuous progression accurately characterizes the transition from regional to superregional markets. And yet, there are countless examples of strategic behavior that suggest such product/market alignments are assumed to be continuous.

The assumption of linearity is likewise an over simplification. The incredible range and number of alternative product/market combinations can be ordered in terms of size or even market potential but it is absurd to suggest that there are many opportunities in marketing to derive similar extrapolations. Linearity of conflict in marketing is largely irrelevant as an analytical construct given the complex and diverse nature of most product/market alignments. The variability among competitive systems, disparate political structures, diverse

social and cultural demands, philosophical extremes, multinational and inter-regional alliances make linearity of conflict a fleeting notion.

Finally, one is hard pressed to conceive of conflict associated with the product/market alignment process as being unidimensional. For example, restricting Japanese imports to achieve a more acceptable trade alignment cannot be represented unidimensionally as a continuum ranging from a limited to a total embargo. Strategists must also consider such additional dimensions as technology flows, the involvement of trading partners, currency manipulation, government, business and labor cooperation, political pressure, resource flows and social, political and market related propaganda. Consequently, the spectrum must be replaced by a multidimensional model where the level of independence between two dimensions would be represented by the degree of orthogonality.

By modeling the spectrum of conflict multidimensionally, the complexity and dynamic character of the alignment process can be clearly specified. Instead of having political and economic weapons as part of the same dimension, each would have its own. A third dimension might contain the issues involved, while a fourth could deal with geomarket targeting. A fifth might then be the communication mix dimension. The number of dimensions is immaterial: it does not matter that it is virtually impossible to visualize anything more than a four dimensional orthogonal relationship. What is important is that the strategist recognize that each independent factor of conflict can be assigned its own dimension and that each dimension can be further defined in terms of its degree of discontinuity and nonlinearity. Interaction among these

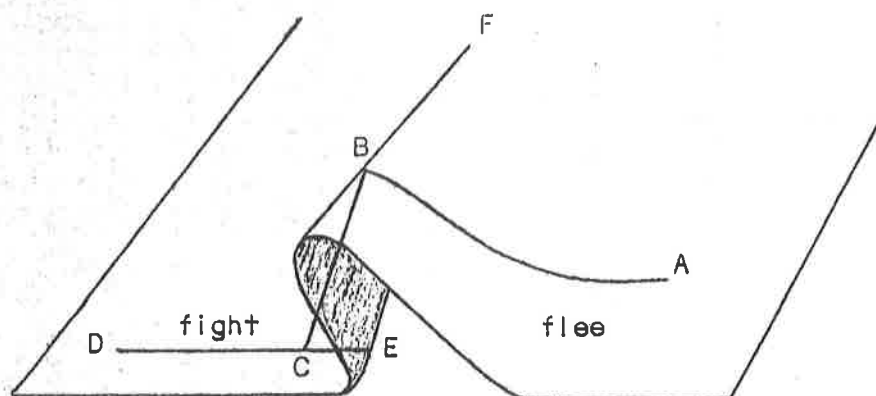
dimensions would generate a hypersurface in multidimensional space.

The consequence of modeling conflict in this fashion is that strategic choices are no longer characterized by simply moving in one direction or another along a unidimensional scale. By explicitly recognizing the complexity of choice the simple model of conflict is replaced by one that conceptually frees the strategist from the restrictions of a unidimensional, continuous, and linear spectrum. As a result, the potential range and scope of our strategies is expanded, responses can be more specific, with greater delineation of purpose and the opportunity to achieve strategic continuity is enhanced, along with our ability to cope effectively with unpredictable or "catastrophic" events.

Unpredictable behavior is typical of the product/market alignment process. By providing for such occurrences one attains a level of sophistication not present in the simple model. In this respect, Rene Thom has probably done as much as anyone in formulating a "catastrophe theory." By applying Thom's model to the product/market alignment scenario, one gains an even greater insight into the conflict process. A strategist confronted by an "adversary" has three general choices of behavior; to fight, to negotiate, or to flee. If the strategist's position is untenable, the inclination is to flee. Given some doubt about the balance of power there is an inclination to negotiate, and in a dominant position, the inclination is toward assertive and aggressive behavior. Thom argues that it is in flight or pursuit that parties to conflict "fall up or down" the conflict surface. The abrupt "falling up and down" is the catastrophic element in the alignment process. Figure 1 depicts such an occurrence and the range of alternatives open to the strategist given a multidimensional conflict

hyperplane [5,6].

Figure 1



As one moves from A to D the potential exists for dramatic changes in behavior, with the transition from fleeing to fighting occurring at point B when the fleeing participant falls from one dimension to another along a discontinuous and nonlinear path. "Falling up" occurs as fighting behavior carries the participant from D to point E and finally to the upper surface. A strategist functioning along a hyperplane can avoid catastrophic behavior by moving up the hypersurface to point F which is located on an alternative dimension. The intent is to find a way to achieve an efficient product/market alignment without crossing a catastrophe fold. It is the single minded pursuit of only one dimension that complicates this process. The fall-up or down the catastrophe fold represents a new unknown which heightens the degree of uncertainty. By visualizing conflict in terms of a multidimensional manifold, the strategist may avoid catastrophe, minimize its impact, or gain control of the catastrophic process.

The spectrum of conflict is clearly an oversimplification. A model of conflict as a multidimensional hyperplane provides the strategist with a more realistic framework for analysis and more accurately depicts conflict associated with the product/market alignment process. The linear, continuous and unidimensional model is adequate for a very limited set of conflict scenarios. The strategist interested in achieving and maintaining a wide range of macro-alignments requires a more powerful conceptual tool. Conflict as a multidimensional manifold, incorporating the properties, idiosyncracies, and pathology of a hypersurface greatly expands one's strategic options and more clearly delineates the bounds of rational behavior available to the strategist in negotiating macromarketing alignments.

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INDUSTRIAL POLICY AND INTERNATIONAL MARKETING EFFECTIVENESS

by

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INDUSTRIAL POLICY AND INTERNATIONAL MARKETING EFFECTIVENESS

Abstract

It is generally recognized that the international competitiveness of a country's industries is not just the result of the marketing skills of specific firms. The industrial policy of the country also has a substantial effect on the competitiveness of that country's firms in global markets. This paper explores the links between industrial policy and international competitiveness. It elaborates the concept of competitiveness at the industry and country levels. The range of industrial policies at the sector and country levels is explored and illustrations of various types of policies are provided. The paper concludes with a brief discussion of the political-economic character of industrial policy.

INDUSTRIAL POLICY AND INTERNATIONAL MARKETING EFFECTIVENESS

While Japanese companies are widely regarded as aggressive and highly successful competitors, Japan is not generally seen as a source of skillful marketing techniques. The world does not look to Japan for high-level expertise in advertising, product management, salesforce management, market research techniques, or any of the traditional areas of marketing know-how. There is a seeming contradiction here. A country not particularly known for its marketing know-how is nevertheless emerging as number one in terms of marketing effectiveness for products such as cameras, cars, motorcycles, watches, TVs, calculators, and many others.

This paradox begins to dissolve when we realize that marketing effectiveness is not merely a function of conventional marketing skills. In fact, most of the micromarketing skills required by a company can be bought as services from outside vendors. Services such as advertising, promotions, public relations, direct mailing, sales training, wholesaling, market research, market monitoring, packaging, and even new-product design could be acquired from competent outside agencies. A firm in Nagoya could conceivably make a few phone calls in New York and farm out almost all of its conventional micromarketing functions.

Factors other than conventional micromarketing skills are also responsible for the marketing effectiveness of a company, an industry, or a country. This is particularly so in the international arena. Policies at the sector level (mezzo) and at the national level (macro) influence the ability of enterprises to compete in the world marketplace. Of the macro-level policies, perhaps the most important is the industrial policy of a nation. By adopting policies that aid important industrial sectors, nations are able to project their competitive leadership in the world markets. In recent years, there is a

tendency by countries to use industrial policy consciously and explicitly to achieve a competitive edge. Japanese automobiles, Italian wines, French nuclear plants, South Korean construction firms, West German chemical firms, Israeli citrus producers, and U.S. computer makers exemplify some of the industries that have enhanced their global market position aided by the industrial policies of the respective governments. In effect, industrial policy is becoming a major macromarketing tool in the world.

This paper elaborates the concept of industrial policy as a macromarketing tool. The first section discusses the concept of marketing or competitive effectiveness at the industry and nation levels and outlines the major determinants of such effectiveness. The second section discusses the concept of industrial policy and develops the major dimensions of such a policy. The third section provides examples of industrial policies of various countries and their impact on marketing effectiveness. Finally, concluding remarks are offered about the future of industrial policies in the world markets and implications are drawn about macromarketing practice and research.

COMPETITIVE EFFECTIVENESS

It is relatively easy to recognize the competitive effectiveness of a firm, sector, or nation in a post facto sense. Any number of indicators pertaining to growth rate, market share, profitability, consumer preference, etc., can be touted to describe an entity's marketing success, once such success has been achieved. It is not so easy, however, to characterize competitive effectiveness before the fact; i.e., at the stage when a nation or an industry is just beginning to think strategically about its global competitive position. This is because competition takes a variety of forms and so does competitive strategy (Porter 1980). By defining competitive

effectiveness in a particularly narrow way, one runs the risk of neglecting many of the strategic options. As an illustration of this, British motorcycle manufacturers like Harley-Davidson continued to be complacent about their competitive effectiveness in the U.S. market--presumably lulled by steady sales growth--while the Japanese expanded the market several-fold by redefining the mobike as a non-threatening and popular recreational vehicle (Keegan 1980, p. 213).

A better understanding of competitive effectiveness in international settings can be obtained by elaborating on three ideas:

1. International or Global Markets
2. Competitive Effectiveness of an Industry
3. Competitive Effectiveness of a Country

Global Markets

It is generally held that some industries are "global", others are "domestic", and the rest are "hybrids" (Scott 1978). Furthermore, it is recognized that "[a]n increasing number of industries have become or are becoming global industries....Managers in nearly every industry must consider global competition a possibility if not already a reality" (Porter 1980, p. 276). In this paper, the position is taken that for the purposes of analyzing competitive effectiveness; every industry (and its associated markets) must be treated as "global". This is because in an open economy, competition could potentially come from various countries. Even for seemingly domestic industries like electric utilities or passenger railroads, international competitive pressures are felt through upstream markets (e.g., nuclear fuel, crude oil) and downstream markets (e.g., alternative travel modes). In relatively closed economies like the U.S.S.R. and China, international

competitive pressures are felt--though not as intensely as in the capitalist countries--and the potential for global market penetration by their industries exists (Business Week 1982, World Business Weekly 1980). Thus, in the interdependent world of today, both the sources of competition and the arenas in which an industry competes, are likely to be global. For the purpose of competitive analysis, especially with a view to devise an industrial policy, the purely domestic view of "market" has little value,

Competitive Effectiveness of an Industry

With the world as a market, the competitive assessment of firms and industries takes interesting and sometimes unexpected forms. Ford, the Number Two automaker in the U.S. becomes Number Four in the global setting. Renault, the top European car maker becomes Number Five in the world hierarchy. The entire U.S. auto industry--a veritable giant--was pushed to the Number Two spot in 1980 and 1981 by the Japanese auto industry (Kodaira 1982).

How can a particular industry (say industry A) from a certain country (say country X) assess its competitive position and effectiveness in the global setting? The first issue that arises in answering this question is one of industry definition. Such definitions vary widely depending on how substitutes, vertical integration, etc., are treated. For the purpose of analyzing industrial policy, it is best to adopt Porter's position that:

1. Competition comes from a variety of sources: existing rivals, potential entrants, substitutes, powerful buyers, and suppliers (Porter 1980, chap. 1).
2. Drawing the industry boundary is a matter of degree and should not cloud the issue of analyzing all sources of competition and choosing the most effective strategy (Porter 1980, pp. 34-35).

An "industry" can, therefore, be defined in any convenient way. Assessment of the competitive position of that industry, however, must be based on a systematic consideration of all competitive forces. Policy makers in country X can understand the competitive position of industry A_x if they have information on:

- (a) The Competitive Field: Industries directly competitive with A_x in other countries (the rival industries) as well as potential entrants, substitutes, powerful suppliers and major buyers--all these at home and abroad. While understanding the competitive field of industry A_x is an essential first step, the competitive fields of the rival industries (A_y , A_z , etc.) should also be analyzed. Lurking threats (e.g., a single global supplier of a critical part) and opportunities (e.g., a substitute market that A_y has tapped but others have ignored) may become apparent by examining these overlapping competitive fields.
- (b) The Competitive Position: Where does industry A_x stand in its competitive field? The fuzzier the field, the more difficult it is to answer this question. Global market share provides a crude summary measure of competitive position but is not enough. Comparative estimates of channel attitudes, consumer preferences, product quality ratings, cost structures, capacity utilization, capitalization, personnel, etc., are also needed. It is essential to rise above a marketing orientation here. The marketing orientation emphasizes only the results of the competitive game but largely ignores the costs and resource requirements for playing the game.

- (c) The Global Potential: Assuming the most favorable conditions, what are the limits of the global market and its various components? This question is difficult to answer because unusual "favorable conditions" are often created by the strategic actions of a few significant competitors. Indeed, the strategy of A_x may be to expand the markets dramatically by making some bold moves. This implies that potential must be assessed under a strategic status quo as well as under other contingencies.
- (d) The Competitive Prospects: A forecast of what the competitive field, the markets, the positions of various rival industries and other competitors, etc., would look like in the near term is essential. Such a forecast provides a baseline scenario for the policy makers concerned with industry A_x . The industry has to "live with" the imminent forecasts, unless it has resources to change the global market.
- (e) Riskiness of the Position: An indication of the downside risk to the position of industry A_x is necessary. The policy makers should ask themselves: assuming the most unfavorable competitive conditions, where would industry A_x end up? This requires a judgment as to what these unfavorable competitive conditions could be and assessment of the vulnerability of A_x . For the latter, information on financial and cost structure would be needed.
- (f) Competitive Constraints and Flexibility: In what ways does the existing competitive field limit the strategic flexibility of A_x ? The knowledge of these limits can help the policy makers in analyzing feasible strategic options for the firms in industry A_x .

The above indicate that the competitive effectiveness of an industry in the global setting is a multidimensional construct. The type of analysis described above can best be carried out by a relatively impartial and central agency with access to global data. Not surprisingly, government agencies often undertake such analysis although this is not a prerequisite for evolving industrial policies. It is conceivable that a government formulates industrial policies based on competitive analysis carried out by an industry association or a third party (e.g., a consultant).

It should be noted that in reality, it is firms that compete, not industries. Hence, an aggregate assessment is needed when the competitive effectiveness of industry A_x of country X is being discussed. Such an "aggregation" may not make much sense in some situations. In such cases, the industry must be broken into relatively homogeneous subsectors. The textile industry in India cannot be understood, for example, without breaking it into the mechanized mill subsector and the handloom subsector, both of which are relatively equal in size but vastly different in character (Khurana et. al. 1981).

Competitive Effectiveness of a Country

The concept of country competitiveness is at an even higher level of aggregation than the concept of industry competitiveness. It is also more abstract, since, as stated earlier, it is firms that compete in the global marketplace. Yet, almost as a modernized resurrection of the Ricardian comparative advantage theme, the idea of competitiveness of countries (or the lack of it) is receiving considerable attention (e.g., Hayes and Abernathy 1980, Kotler and Fahey 1982). Four aspects of the competitiveness of a country need to be distinguished:

1. Performance: Very often, a country is regarded competitive because of the notable marketing success of some of its industries. For example, German chemicals, American computers, Japanese consumer electronics, Taiwanese textiles, etc., are some of the successful products that have conferred an image of competitive effectiveness on the respective countries.
2. Policy: Some countries are regarded as competitively effective because of their aggressive industrial policies. This is obviously confounding the cause and the effect but it does point to the close link between industrial policy and competitive effectiveness.
3. Potential: Some countries are perceived to have great competitive potential of certain kinds. For example, populous and moderately industrialized countries like China, India, Brazil, etc., are regarded as strong potential competitors in many labor intensive sectors.
4. Image: The notion of "country image" is a composite one, including elements of potential, policy, and performance. Studies have indicated strong relationships between country images and buyer behavior (e.g., Nagashima 1970 and 1977).

These four aspects of country competitiveness are interrelated as shown in Figure 1. Policy leads to performance, of course in a probabilistic way,

Figure 1 about here

as the dotted line indicates. Potential is the "base" on which policies and results depend. This base is itself transformed by policies, performance, and the evolving country image. The image of the country is a superstructure

that is created by perceptions of that country's competitive potential, policies, and performance. The image, in turn, affects the potential, policies, and performance.

An Overview of Competitiveness

While industry A_x operates in the global markets of A-type industries, it also operates in the competitive frame of country X. A poor country image, a declining competitive potential of the country, a faltering international performance by industries of country X in general, or an unsystematic industrial policy--these could all become macro-level drags on the global competitiveness of A_x . Of these, the industrial policy of country X is the only macro-level variable that can be consciously manipulated in the short run. It is small wonder that this variable is receiving so much attention in this era of intensifying global rivalries.

INDUSTRIAL POLICY AND COMPETITIVENESS

Taking a broad view, industrial policy can be seen as including almost all the economic policy instruments available to a government. According to Leone and Bradley (1981, p. 92):

Industrial policy...is the sum of a nation's efforts to shape business activity and influence economic growth. Its proper concern is not transitory issues of industrial well-being but the long-term structural integrity of a nation's industrial base. It is a government version of a company's long-term strategy.

This broad, all-encompassing view of industrial policy must be made more specific when addressing the issue of competitiveness of nations and their industries. Specifically, it is necessary to understand what aspects of competitiveness are affected by what instruments of government policy and how.

Policies at the Industry Level

Drawing from the earlier discussion on the competitive effectiveness of industry A_x of country X in the global setting, it is possible to outline the ways in which government policies can influence the competitiveness of industries. There are three major ways in which government policies can affect the international competitiveness of the domestic industry. Such policies can:

1. Alter the competitive field: Make it more benign, more opportune, or less threatening for the domestic industries. For example, by being a major buyer of the domestic industry's output, policies can reduce dependence of A_x on other large buyers who may exert bargaining pressure. Similarly, policies that ensure steady raw material supply, or facilitate cross-country collaborations with rival industry (e.g., Renault and AMC, Renault and Volvo) also make the global competitive field more favorable to the home industry.
2. Enhance the competitive position of the domestic industry: Instead of acting on the domestic industry's competitive environment, government policies can act on the industry itself. Measures that facilitate mergers and consolidation, permit cartelization at home, provide preferential credits on tax treatment, pump in R & D resources, etc., are designed to strengthen industry A_x directly vis-a-vis its international rivals A_y , A_z , etc.
3. Improve the market prospects for the domestic industry: Government policies can stimulate the demand for the products of the home-country industry in a variety of ways. One common and effective

way is to have a policy of government procurement from local sources only. Another is to insist on a high percentage of "local content" in the downstream industries of industry A_x . Yet another is to provide subsidies to the industry, its distributors, or its customers--a form of price reduction. Governments can also help to promote the products of the local industry in a variety of ways (e.g., "Buy British" campaign or PR releases about home industry).

What specific policies are used or preferred by governments, and how the domestic industries respond to these, are complex political-economic issues which this paper cannot go into. It is essential to understand the interrelationships of these three types of policies, however. If the three broad categories of industry-oriented policies enumerated above are labeled respectively the environmental, the supply-side, and the demand-side policies, then their relationships can be portrayed as in Figure 2.

Figure 2 about here

As this figure shows, demand-side policies can usually affect domestic demand only, although international aid, credits, and diplomacy have been used to a certain degree to orient foreign demand toward home industry (see, for example, Goulet and Hudson 1971). Environmental policies have a diffuse and indirect impact on the domestic industry. To the extent these are successful, environmental policies make the competitive field a little easier to ply for the home industry. Supply-side policies have a direct effect on the capabilities of the domestic industry. It is not surprising that such supply-side policies are widely used. In countries where interventionist policies are politically more feasible, a wide range of

supply-side stimuli are used. In the extreme case, the government may nationalize key firms in a sector. In countries with a non-interventionist bias, such as the U.S., the range of supply-side policies is limited. Either tax incentives are provided (rate cuts, credits, etc.) or deregulation is used as a way of enhancing the strategic manoeuvrability of firms in an industry.

It is being recognized, especially in the U.S., that the policies oriented toward an industry's strategic interests should be consistent with each other and continuous (Leone and Bradley 1981, Reich 1982). This is one reason why industrial policy is a country-level issue, and not just an industry-level issue.

Policies at the Country Level

Policies oriented at specific industrial sectors, or sectoral policies, obviously have an aggregate national effect. For example, a country that strongly supports high-technology industries is likely to acquire an overall high-technology country image. Apart from policies directed at specific industrial sectors, government policies can affect the competitive: a) potential, and b) image, of a country in an overall way. An elaboration of such policies follows.

Infrastructural Policies. These are policies directed at the competitive potential of a country (see Figure 1). A country has a good competitive potential if its economic and social infrastructure is developed and diversified enough to support a variety of industries. In the Third World, the physical infrastructure is nonexistent or highly underdeveloped. Hence, the infrastructural policies are geared toward strengthening transport, communications, urban services, etc. In the economically advanced countries, the

physical infrastructure is usually in place and the policy emphasis shifts to human capital, R & D, technology, etc.

Superstructural Policies. These are policies designed to enhance the competitive image of a country (see Figure 1). This is one of the tasks of the propaganda machinery that all major industrial countries have. Besides propaganda, there are other ways of building national images. Aid, international exchanges of people, education and training of foreigners, tourism, international cooperation and participation in multi-national ventures and organizations, etc., are all likely to have side-benefits in terms of image enhancement. Needless to say, image building strategies have an element of risk and could backfire in certain cases.

Image-Potential Consistency. There are obvious merits in keeping the infrastructural and superstructural policies of a country consistent with each other. If a country promises more than it can deliver (i.e., image outstrips potential), then there is likely to be an international backlash from disenchanted trading and economic partners. If a country has a potential greater than its image, then it is likely to be losing opportunities in global markets. Image-Potential gaps can develop, however, not just from inconsistent policies but also from world events. Through most economic history, one is likely to find countries whose image outstripped the potential or vice versa. The next section, which provides illustrations of industrial policies, sheds further light on the problem of harmonizing such policies at the sector and country levels.

ILLUSTRATIONS AND DISCUSSION

In the preceding section, three types of industrial policies were identified at the sector level: environmental, supply-side, and demand-side policies. Similarly, infrastructural policies and superstructural policies are the two major industrial policy categories at the country level. Together, these five types of policies cover almost the entire spectrum of industrial policies. Illustrations and discussions that follow focus on the contexts in which the various policies are used and conditions that lead to success in global markets.

Environmental Policies

These are policies designed to alter the competitive field of a given industry. This is a difficult task because the competitive field of an industry not only stretches across a number of countries, it also spans vertical (e.g., suppliers) and horizontal (e.g., substitutes) competitive forces of a somewhat indirect nature. No one government can possibly influence all the forces in the competitive field of an industry. Nevertheless, governments do try to influence critical components of the competitive field. The OPEC governments, for example, have directly altered the competitive fields of their respective petroleum extraction industries and indirectly altered the competitive situation in almost all energy-related industries. Similarly, South Africa, by means of the international diamond marketing arrangement dominated by De Beers, is able to control competitive forces in the global diamond industry. Monopolistic or cartel-like conditions provide the maximum scope for industrial policies that can alter competitive fields in favor of countries that control sizeable production capacity. Since such conditions are not widely prevalent, governments are more likely to intervene

in the buying and supplying sides of the competitive fields. One reason why many countries nationalize a basic industry such as steel is to influence industries like transport equipment and machine tools which are heavy steel users. For example, assuring the supply of needed types of steels at reasonable prices can greatly improve the international competitiveness of a country's machine tool industries. Foreign policies can also be linked to supply considerations. The U.S. policy toward the Middle-East, for example, has been closely linked to the petroleum needs of U.S. industries (Furtek 1979). Government as a steady and major procurer of an industry's output can also strengthen the competitive position of that industry. Reich (1982) points out that in the formative years of the computer industry, the U.S. government bought up as much as 79% of that industry's output. Aerospace (with 56% of industry sales to government) and telecommunications (57%) have been similarly supported in recent years (Reich 1982). It should be noted that such government policies alter the competitive field in the industry's favor even if no price subsidies are involved. The steadiness of demand (or supply) and the non-competitive and supportive posture of the government are factors that make the competitive field relatively benign for the domestic industry.

Supply-Side Policies

These are policies that strengthen the ability of the domestic industry to compete. There are several variants of such policies. Structural policies permit the consolidation or cartelization of firms in an industry. In Japan, for example, "depression cartels" can be formed with government's permission if the firms in an industry experience adverse conditions (Caves and Uekusa 1976). In the U.S., selective enforcement (or lack of it) of the antitrust law has permitted large, dominant firms to emerge in many industries. In

France, the socialist Mitterand administration is attempting consolidation of key industries directly through nationalization and industrial reorganization (Business Week 1982a, 1982b).

Transfer policies attempt to aid an industry by making resources available, often for specific projects. Government-supported R & D is used in a big way by U.S. policy makers (Reich 1982). The Japanese (Business Week 1981) and the French (Business Week 1982a, Greenberg 1982) are also pumping in R & D resources into what are identified as vital national sectors. The advantage of transfer policies is that these can be directed at specific industries and even at specific projects. The French, for example, are concentrating on 14 national projects such as voice recognition and synthesis, computer-aided design and manufacturing, etc. (Business Week 1982a).

Stimulative policies--yet another version of supply-side industrial policy--attempt to induce fresh business investment and capital formation by offering tax breaks and investment credits. Unless specifically designed to do so (as in the case of various investment credits and depletion allowances for the oil industry in the U.S.), the impact of stimulative policies is likely to be non-selective and across-the-board. In fact, the benefits are likely to accrue to industries that have investible funds and opportunities. Hence, the timing of stimulative policies is usually very important. Depending on when such policies go into effect, certain sectors will be poised to take advantage of the fiscal incentives while others would not be in a position to do so. Also, unlike transfer policies, stimulative policies usually cannot affect the type of projects, unless the conditions for tax credits are tightly specified. A major example of stimulative supply-side policies is the economic recovery program of the Reagan administration. While it is too early to judge

the eventual impact of this program, it is evident that the timing was disastrous. With two successive recessions (1980-81 and 1981-82), most industrial sectors (particularly the depressed ones) are not in a position to undertake major investment programs.

Demand-Side Policies

These are policies that aim to increase the demand for the products of some or all sectors of industry. Figure 3 classifies such policies on two dimensions--whether these are direct or indirect, market-forming or market-stimulating. Market-forming policies are particularly useful in

Figure 3 about here

case of developing countries or emerging industrial sectors. Japan and Taiwan achieved considerable expansion of the internal market at particular historical junctures by undertaking extensive land reforms. This eventually enabled some of their industries to develop scale economies, accumulate experience, improve designs and later tap international markets (Matsumoto 1982). Just as land-reform often has an indirect market-forming effect, so also defense procurement or the space program have a direct market-forming effect in high technology fields. Similarly, energy tax-credits for home owners in the U.S. have had a direct market-forming effect in insulation and solar panel industries. While these market-forming effects are domestic to begin with, ultimately the international competitiveness of the country's industry is enhanced.

Market-stimulating policies tend to activate dormant demand in existing markets. Overall promotional campaigns such as "Buy British", "Buy American", etc., aim to stimulate domestic demand for the country's industries as a whole. In foreign markets, strong sectoral campaigns are also used. For

example, the French and Italian wine industries wage industry campaign in American media to promote their respective wines. Tied aid and credits also have the effect of stimulating demand for the donor country's goods (Goulet and Hudson 1971, Hayter 1971). Untied or multilateral aid (such as contribution to World Bank's lending resources) have indirect demand-stimulative effects (see Figure 3). The global trend, incidentally, is toward reduced use of aid policies and greater tying of aid (Colaco 1973).

Infrastructural Policies

These are country-level policies that enhance the competitive potential of the country as a whole. Debates about infrastructural policies usually center around three issues:

1. Whether or not the infrastructure (or potential) of a country is underdeveloped and hence a barrier to its international competitiveness.
2. What segments of the infrastructure need to be aided (e.g., transport, education, science, communication, etc.)
3. In what ways should government policies aid the infrastructure-- direct transfers and subsidies or indirect stimulation (by relying on market forces).

In the U.S., the Reagan administration is reducing support for the "education" segment of the infrastructure and this has raised the cry of alarm from some who believe this will impair U.S. competitiveness in a high-technology, service-intensive world economy. In India, the government is supporting the satellite-to-TV communication technology in the hope that this will enable the country to leap-frog many telecommunication stages and enter the electronic mass-media age in a big way.

Superstructural Policies

These are image-oriented policies at the country level. For most countries, in most historical periods, the problem is one of image building. The newly industrialized South-East Asian and Latin-American countries such as Singapore, South Korea, Taiwan, Mexico, Brazil, etc., often take out multi-page advertising supplements in leading news and business magazines abroad to enhance the country image. Diplomatic and economic missions of countries also engage in image-building efforts. In some cases, the image may tend to outstrip potential, as has happened in the case of Japan (Vaubel 1982). In such cases, the problem becomes one of image maintenance and realigning the country's potential to its image (Lohr 1982).

IN CONCLUSION

Industrial policies have always been very important to developing countries undergoing a process of industrialization (UNIDO 1969). In recent times, such policies have acquired a new importance in industrialized countries as well. This is because of the realization that industrial development is a process that needs constant adjustment and fine-tuning. It is a process that responds to strategic decisions at the government level, much the same way as corporate resource allocations and operations respond to corporate strategy.

Since industrial policies influence the international competitiveness of a country, such policies should be analyzed from a macromarketing management standpoint (Zif 1980). This paper has presented such an analysis by: (a) exploring the dimensions of competitive effectiveness in the global setting, (b) presenting a framework for linking industrial policies to competitiveness at the sectoral and country levels, and (c) illustrating and discussing the

variety of industrial policies available and being used in the world economy.

In the interest of exploring the many facets of industrial policy and international competitiveness, this paper has avoided the politico-economic context of these issues. Clearly, industrial policies of governments differ from corporate strategies in the complexity and severity of political constraints (Scott 1978). The difference is not just one of degree. Industrial policies are political-economic phenomena--such policies usually happen more than are formulated. The analysis presented here presumes a conscious, continuous, country-level policy-making structure. Such structures are difficult to create and even more difficult to subject to democratic control of the whole society. These difficulties must be surmounted if industrial policies are not to be the public-relations tools of a country's rulers or the instruments of specific sectoral interests. A wide dissemination of knowledge about how the global political economy works is an essential first step toward democratizing industrial policies and their marketing impacts.

Figure 1

Elements of Country Competitiveness

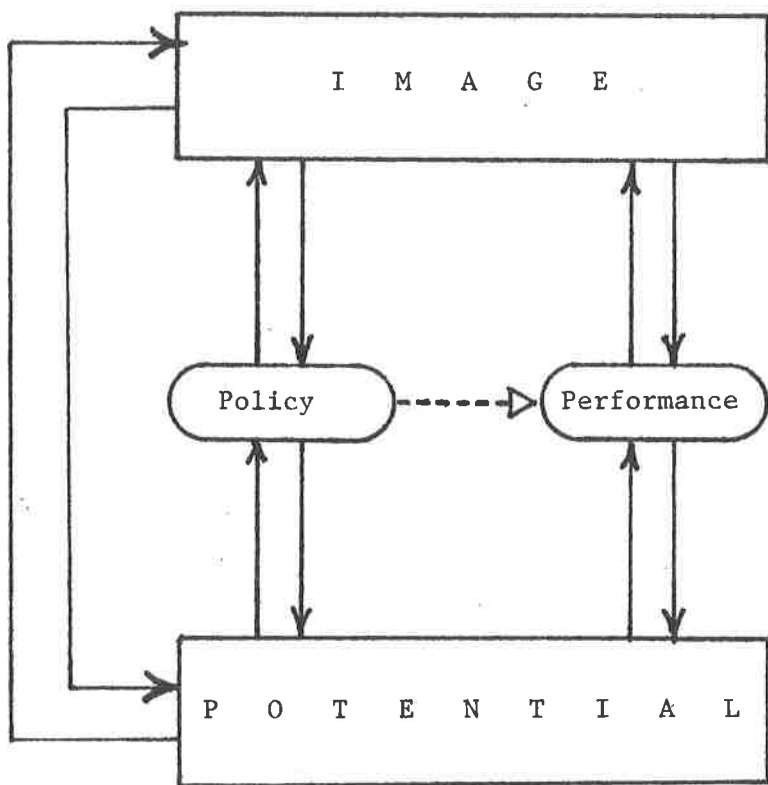


Figure 2
A View of Industry-Oriented Government Policies

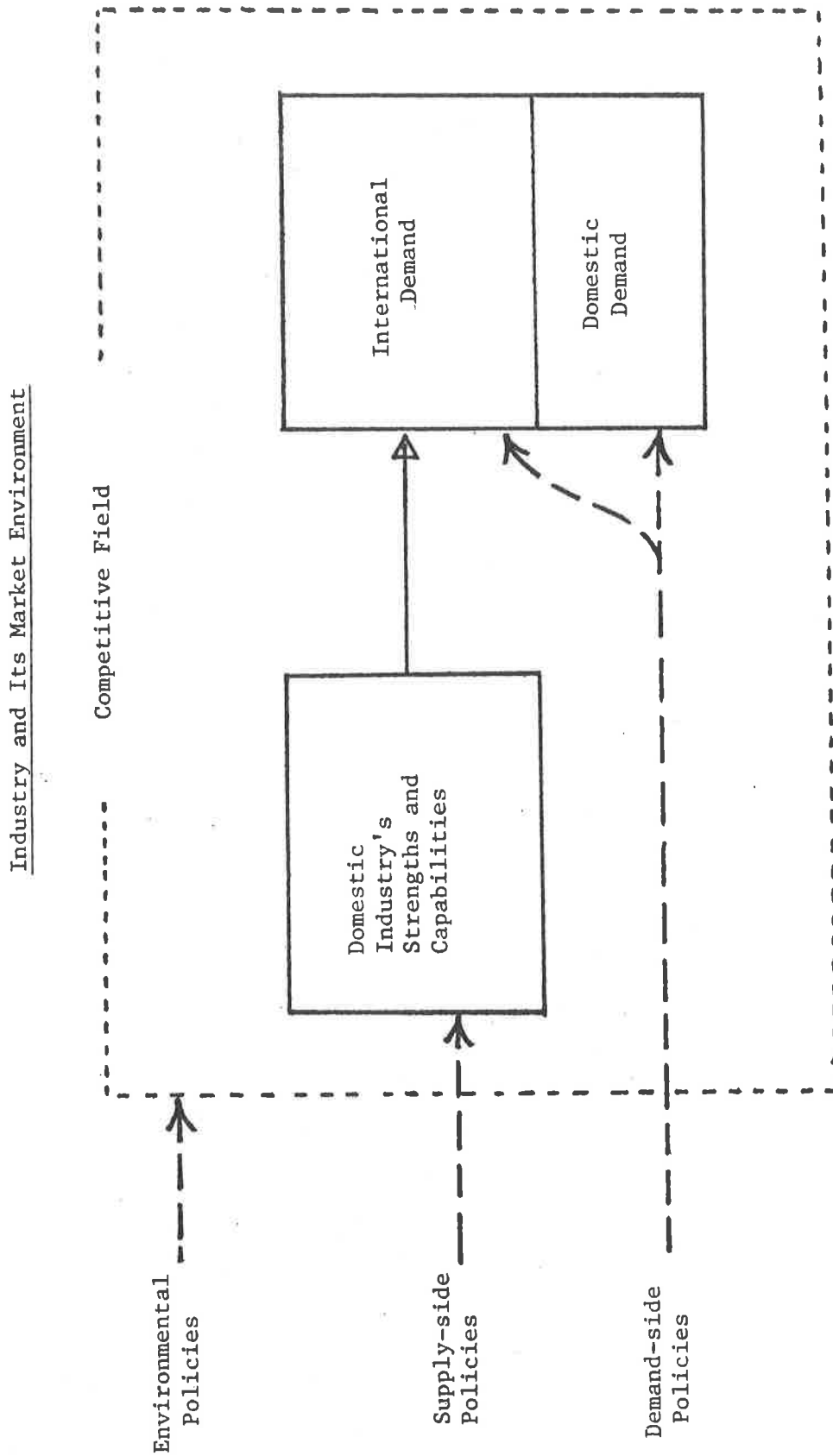


Figure 3

Examples of Demand-Side Industrial Policies

	Market-Forming	Market-Stimulating
Direct	<ul style="list-style-type: none">- Defense procurement- Space program- Homeowner energy tax-credit	<ul style="list-style-type: none">- Subsidized sectoral promotion campaigns- Tied aid and credits
Indirect	<ul style="list-style-type: none">- Land reforms- Initial stages of welfare programs	<ul style="list-style-type: none">- "Buy Domestic" campaigns- Untied and Multi-lateral aid programs

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A POLITICAL ECONOMY APPROACH TO
MODELING DIFFERENCES IN ECONOMIC CULTURES

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A POLITICAL ECONOMY APPROACH TO MODELING DIFFERENCES IN ECONOMIC CULTURES

INTRODUCTION

Japan has enjoyed an unparalleled success since World War II in developing its economy, despite the lack of many natural resources, such as iron and energy. Even in years of economic stagnation in the West has the Japanese economy been able to grow. World industry has felt the impact of the Japanese; steel, shipbuilding, auto manufacturers, photography, and electronics, to mention a few.

This success is not confined to technology and management such as quality control, and productivity, but extends to both commercial marketing and skillful marketing on the governmental level to ensure access for the Japanese product to the world's markets, as well as ensuring a steady supply of raw materials from a variety of countries. Against the odds of long transportation distances, consumer acceptance as well as political acceptance and trade barriers, Japanese products are found world wide at competitive prices.

In order to seek an explanation to this success it is necessary to go beyond the more common explanations such as low labor costs and defence budgets, to the underlying cultural, political and economic differences. The purpose of this article is to seek to develop a conceptual model of the two economic cultures borrowing from economic and political traditions. By contrasting the modus operandi of the two cultures one may gain a deeper understanding of the underlying differences which may be responsible for Japan's success.

Institutionalism and Neoclassicism

Early marketing writers often chose a macro approach to the issues

relevant to the field. The emphasis on micro issues has dominated the literature for the past decades. A renewed interest in macromarketing originated with the revival of the consumer movement of the sixties and was chiefly concerned with equity issues in the relationship between business and consumers.

Only recently have marketing scholars begun to reexamine the more philosophical issues concerning the various external relationships in which a firm operates. Notably Johan Arndt (1979, 1980, 1981), Hiram Barksdale (1980), and Søren Heede (1980) have investigated the structural relationships among firms, governments and consumers, borrowing from philosophy, political science, and economics. They have all expressed concern that the traditional neoclassical model of man is inadequate for the study of marketing especially in the non-American situation. Dholakia et al (1980) call for a comprehensive theory of marketing based on formation, transformation and satisfaction of consumption needs as an alternative to the present theories. A similar concern was expressed a few generations ago by the fathers of the institutional school of economics. Notably, Thorstein Veblen advocated a more comprehensive view of economics (when compared to merchantilism) suggesting that one analyze the basic notion of how one "gets a living" and the activities undertaken in pursuit of this goal (Ayres, 1963). The state of technology and resources are two of the independent variables determining how these activities take place. This is an evolutionary view of economics - of how the present day institutions came into being. Commons was more concerned with the rules that determined how one might go about "getting a living." He focused on the "reasonableness" (equity) of the transaction itself including the unequal power bases of the parties involved which could result in

"voluntary" yet unfair exchanges (Chamberlain, 1963). When people organize, they do so to achieve power or an improved set of options to secure a better life. This gives the institution more power than the non-organized, thus limiting the negotiatory power of the individuals. (voice and exit) It can therefore be said that a general equilibrium (exchange based) theory is somewhat naive in the institutionalists' view. When people divide into competing, cooperative societies, a contest over the rules will set in and the stricks and carrots are placed according to the wishes of the winners.

Johan Arndt (1981)* contrasts institutionalism and neoclassicism in a current perspective. He describes the mission of neoclassicism is to explain relative prices resulting from voluntary exchanges, market equilibrium, and that competition brings about allocative efficiency. Supply and demand curves are derived by means of marginal analysis and assumptions about utility maximization, rationality and perfect information (Arndt, 1981). These assumptions have been relaxed yet the essence of microeconomic neoclassical theory remains the same. The elegant logic and simplicity has made the neoclassical paradigm suitable for "export" from economics to other social sciences, such as sociology (Parsons and Shils, 1962) and marketing seen as exchange (Bagozzi, 1978) as well as social exchange theorists, such as Homans (1961), Thibaut and Kelley (1959), and Blau (1964).

Neoclassicism is confrontive in the sense that the actors will "vote with their feet." Equilibrium is achieved in that those who perceive a positive benefit/cost relationship will exchange, and the rest

*This section borrows heavily from Johan Arndt's article, "The Political Economy of Marketing Systems: Reviving the Institutional Approach," in Journal of Macromarketing, Vol. 1 and 2, pp. 36-47.

will either not exchange or seek other more favorable exchanges. In other words, rather than trying to change the product of the supplier, an actor will either accept or reject the offering and as such be confrontive. "If you don't have what I want, then forget it, I'll take my business elsewhere." This is at the heart of the neoclassical competitive construct.

According to Arndt (1981) the neoclassical paradigm involves Newtonian thinking on equilibrium mechanisms; it considers primarily short term economic issues using the market mechanism on a "take it or leave it" basis. It assumes that the actors will reject (exit) inferior offerings and enter into exchange relationships with superior offerings. In a competitive situation, with multiple offerings, it is possible to exit from one solution and enter another. The American economy is based on this notion that multiple offerings promote economic efficiency and a better utilization of resources, and that this will lead to an efficient and equitable distribution of a finite set of resources, provided the actors are relatively free to pursue their own self interest. It is based on the market system regulated to prevent substantial degrees of monopoly.

An alternate view of man is represented by institutionalism. (See Table 1 for a contrast of neoclassicism and institutionalism) Whereas neoclassicism focuses on equilibrium mechanisms, institutionalism searches for explanations for how selected and surviving organisms change with the environment to which they adapt (Arndt, 1981). Thus it can be said that institutionalism shares commonalities with the Darwinian evolutionary theory (Hernes, 1978, p. 218). Institutionalism

TABLE 1
 DIFFERENCES BETWEEN THE NEOCLASSICAL PARADIGM
 AND AN INSTITUTIONAL APPROACH*

Feature	Neoclassical Paradigm	Institutional Approach
Natural science analogy	Newtonian thinking on equilibrium mechanisms	Darwinian evolutionary thinking
Normal state of system	Equilibrium	Disequilibrium (revolution or evolution)
Focus of paradigm	The individual decision	Institution
Model type	Final state, mainly static model	Dynamic process model
Relations considered	Economic	Economic, political, social
Imputed goals	Profitability, utility	Survival, power
Goal standard	Optimal (maximization)	Satisfactory (satisficing)
Commonality of goals	Assumed shared organizational goals	Normally conflict
Interconnectedness of organizational decisions	Low	High
Time perspective	Short	Long
Key stakeholder group of organization	Stockholder or owners	Owners, employees, government, suppliers, bankers, customers, etc.
Transactional mechanism	Market relations	Market relations, administered markets, bureaucracy
Exchange mode	Usually take-it-or-leave-it Exit	Negotiation, bargaining, administrative routines Voice

* Arndt (1981)

addresses the reciprocal and interactive relationship between institutions and their environment; how society is organized to integrate and merge wants and to translate them into actions. Whereas neoclassicists mainly have been concerned with the properties of the final state of the system, institutionalists have focused on the process of change.

(Arndt, 1981)

Institutionalism takes a broader view of man and his relationships. It assumes disequilibrium and studies how institutions adjust through a dynamic process. It considers political and social relations in addition to the economic, and has a longer time perspective. It expands the limited number of stake holders under the neoclassical paradigm to include employees, government, suppliers, bankers, and customers. Most importantly, it considers administered markets in addition to free markets, negotiation and administrative routines as opposed to a "take it or leave it type transaction." In other words, it assumes a much broader view than the neoclassical paradigm, allowing for the various actors to view their behavior as being directed by a multitude of goals and interdependencies. Thus the means to survival may well be cooperation (coordination of the multiple demands) rather than confrontation.

It is suspected that an institutionalist would rely less on the short term utility maximizing actor as a mechanism for resource distribution and more on a gradual achievement of agreement among all the actors as to what will benefit the whole (rather than the individual) in the long run. As such, institutionalism may be an appropriate paradigm for studying the Japanese actors, whereas the neoclassical paradigm may still best describe the U.S. actors.

However, before presenting the cultural contrast model it is necessary to discuss the three basic response modes available to the parties to a proposed transaction which is seen by at least one of the parties as undesirable.

Exit Voice and Loyalty

This is the title of a book written by Albert O. Hirschman (1970) in which he elaborates on these three acts as alternative reactions to "lapses from efficient, rational, law-abiding, virtuous, or otherwise functional behavior" (p. 1). When one actor in an exchange does not provide an offering perceived to warrant the price asked, the neoclassical buyer will "exit," i.e., not go ahead with the transaction and seek a better offering elsewhere. Another option is to use "voice," which is highly recommended by Hirschman, in order to help the seller improve his offering. The third option is "loyalty;" buy the offering in spite of its weaknesses in order to support the seller for some other noneconomic reasons, such as patriotism.

The exit option has been available in the U.S. almost as a tradition; the exit from Europe initially and later from the East Coast westward. Whenever a problematic situation arose, we were free to leave it and move on. The use of the exit option requires that there are other alternatives perceived as superior.

This is the way of the free market, for economic "exits" to the products of competition. Exits also happen in noneconomic situations, such as divorce, employee turnover, and exits from unsatisfactory neighborhoods; all on the assumption that one leaves something inferior for something superior. Hirschman illustrates the latter point by the

exit from the public school system. The parents who are most concerned about the education of their youngsters will enroll their children in private schools. Once there, there may not be an exit option available; no other school is perceived as being better and the parents may therefore resort to the "voice" option, which would involve active cooperation with the school in order to improve the offering. Thus when exit options exist one can "confrontively" leave the system, but when there are no exit options, "voice" is the only way one can try to influence the situation. At the extreme, one may be in systems which allow neither "exit" nor "voice" in which case "loyalty" is called for, such as in the military. There, "exit" is desertion and "voice" can be deemed insubordination, thus loyalty remains the only viable option. The act of exiting does involve some cost; from additional time spent looking for an alternative solution, the breaking of economic and emotional ties, all the way to suicide.

Exit is closely linked to independence. The more dependent an actor is on others in the environment, the more difficult it becomes to exit. Internationally, we see an increasing interdependence caused by an unequal natural resource endowment which has both economic and political ramifications. As this mutual dependence accelerates, the exit options become fewer and fewer, and we may have to use voice at an increasing rate. It would be nice to exit our dependence on the Middle East for energy, yet unrealistic at least in the short run, because there are no viable exit options open to us.

From the Japanese viewpoint, with only very few natural resources, "voice" has become the only viable option. The world can afford to exit from Japan, and produce the goods now offered by the Japanese (at a

higher cost), but Japan cannot afford to exit from the rest of the world. It is dependent on ready access to the world's resources and markets for the maintenance of its standard of living. It must therefore cooperate with other countries politically and economically to find solutions of mutual benefit.

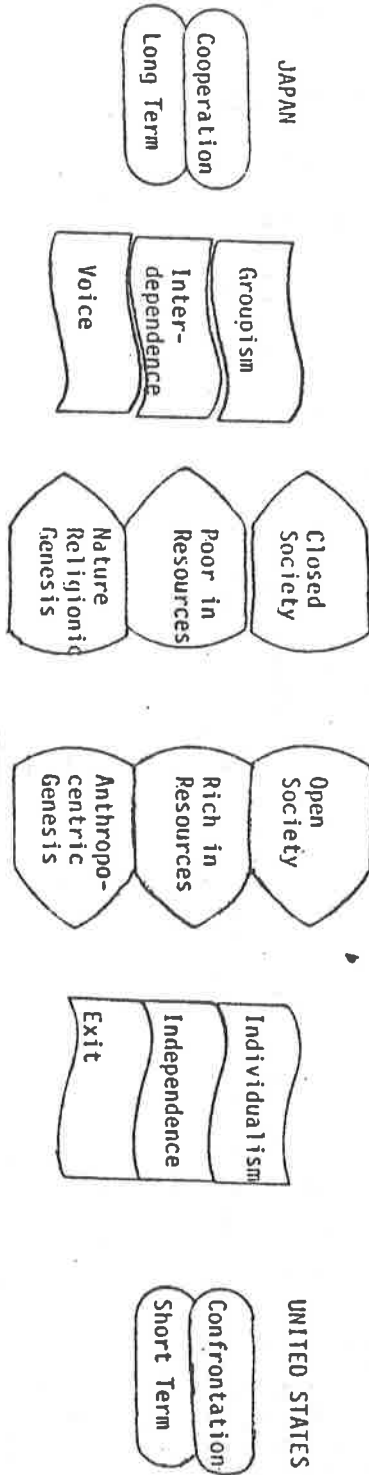
Fortunately for Japan and unfortunately for the U.S., we seem to be moving toward more rather than less interdependence; a situation to which the Japanese have grown accustomed over a century but one which we have yet to internalize. This, in turn, may have forced the Japanese to take a longer term view of its situation than we have had to in the U.S. Any time one lives with a strong sense of mutual dependence, be it in a family, in a company, in an economy or internationally, cooperation will be superior to confrontation whenever a problem needs a solution.

The notion of freedom is closely linked to the availability of low cost exit options. The larger the set of choices, the more freedom of choice. Our competitive economic model is based on providing a real choice of options for the citizens. As the social and monetary cost of exit options increase, the "real" choice set is reduced, and the freedom derived from choice is also reduced.

The Contrast Model

In line with the early institutionalists, the cultural contrast model seeks to depict how one might "get a living" in the two cultures given the differences in history, philosophy and natural resources. The model dichotonizes some of the main differences between the two cultures. Starting at the center of the model, the U.S. is characterized by its openness; be it to people, cultures, ideas, or commerce. It is known as a melting pot for cultures, and new comers are absorbed with relative

THE CONTRAST MODEL



Social, Economic and Philosophical Basis:

1. Closed Society: Homogeneous, culturally pure, difficult for an outsider to gain acceptance.
2. Open Society: Heterogeneous, cultural variety, easy for an outsider to gain acceptance.
3. Resources, rich and poor: Self explanatory.
4. Nature Religionic Genesis: Nature as the center of things; man is subordinate to and part of the system.
5. Anthropocentric Genesis: Man is at the center, man can control his environment.

Resulting Cultural Values; dichotomies:
 Individualism versus Groupism
 Independence versus Interdependence
 Exit versus Voice

Reinforced Problem Resolution Modes: Long Term Cooperation versus Short Term Confrontation

ease. The Japanese society was almost completely isolated for several hundred years prior to 1853. Geographic and cultural isolation caused a unique sense of homogeneity and a strong feeling of ethnocentrism (rejection of outsiders). The outlook is one of "we" and "they" and beside the domestic discrimination of the Aino, the Koreans, and the Burakumin, foreigners are always treated with distaste and courtesy in a society closed to them. Japan has not become Westernized, but modernized. It remains difficult for a non-Japanese to gain acceptance in Japan; more so than for a Japanese to come to the U.S. To a Westerner, the Japanese culture remains fairly alien.

Another difference is in the amount of natural resources available to the two nations. Whereas the United States was richly endowed with natural resources, Japan was "blessed" with only a few. Finally, there is a basic difference in the philosophy of the two peoples, as a function of the different religious beliefs. In Japan, man is viewed as part of a total system which includes both man and nature. In the Judeo-Christian tradition, man is viewed as being in the center, and if possible, in control of his environment.

In a closed, resource poor "nature religious" society man is likely to develop a strong sense of group affiliation. There are no exit options in a closed society, nor exit options from the nature religious system of which man is only a part. Man is interdependent in that there is a strong group dependency; dependency on external agents for resources, and the philosophical interdependency with nature. It becomes rational therefore to cooperate internally and externally; use voice extensively in order to secure a basic standard of living.

This cooperation must have a long term focus, both from the philosophical viewpoint and from the pragmatic viewpoint. Philosophically, it is linked to the man's time horizon, as a caretaker of the family's possessions in a series of generations, and for pragmatic survival. One cannot be a short term maximizer in situations of strong interdependence and expect to facilitate the long term preservation of a standard of living. It also requires an extraordinary ability to be flexible whenever the external conditions change. Industry and government alike must be able to regroup, reorganize and reprioritize whenever it is needed. However, flexibility requires that organizations have a shared set of goals and a common philosophy as well as a feeling of security for each member. Otherwise, change may result in unacceptable risks and potential costs which the organization's members are unwilling to assume and therefore will resist change and create an inflexible organization. This flexibility is a natural component of a long term survival strategy of an interdependent system. Likewise, cooperation is needed to facilitate the quick adaptive process needed.

The United States, on the other hand, was an open society, rich in resources with a philosophy of man as the dominant entity. The Declaration of Independence and the subsequent Bill of Rights both emphasize the rights of the individual. The anthropocentric philosophy spurns individualism. The abundant resources allowed Americans to become independent of other nations, and one individual to become independent of another; each minding their own business. The exit options were freely available to all. Only under these conditions can one choose a short term confrontive problem resolution mode. One can only use the

confrontive approach when there is an exit option present; if the gamble works, fine--if not, there are other solutions present which can be used. It is not necessary to think and plan for the long term in a situation in which resources are abundant and man is seen able to control his environment. Instead, one can count on man's ability to solve almost any problem which may arise, which indeed has been the case for our culture for several decades. Only recently have we encountered problems so interrelated that they defy simplistic, 'quick fix' solutions.

Rational behavior in the two systems can therefore be expected to differ. Each actor is to some extent bound by the philosophical and cultural heritage of his environment as well as the economic and social realities of his situation. Each society has developed a modus operandi suitable for the specific circumstances in which it finds itself; a Darwinian evolutionary process. Problems arise, however, when the modus operandi stays the same under changed conditions. This may be the case of the U.S. today as we find ourselves increasingly dependent on others for our resources, gradually eroding our exit options. We are also seeing that we have been unable to control the adverse effects of our quest to control nature and extract resources, and we face challenges to the anthropocentric philosophy. Japan, on the other hand, seems to be headed for more individualism and a more anthropocentric view of the world, which may result in a gradual dismantling of groupism and diminished flexibility needed as long as strong interdependence is present.

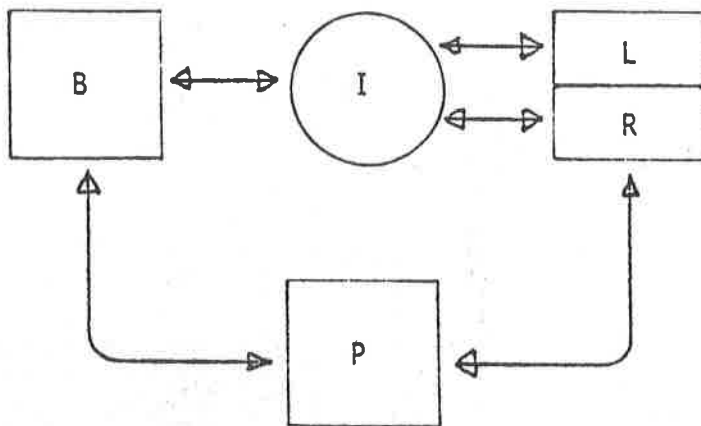
In intergovernmental relationships one would expect Japan to use voice over exit in its dealings with nations which supply Japan with resources or markets. The U.S. will do likewise but is far less dependent on other nations and can therefore use exit more extensively.

The OPEC crisis of 1973 and the Iranian crisis of 1979/80 were very frustrating in the U.S. because of the absence of exit options. Our "modus operandi" which would have involved confrontation was deemed inappropriate by the lawmakers who instead reluctantly embarked upon the more unfamiliar strategy of using voice.

One can also expect the relationship between business and government to be different. The shared values and realization of the interdependence should cause the Japanese to cooperate more than the Americans. The response to the different conditions under which one "gets a living" can be seen in the relationship among some of the major institutions in the two cultures. Drawing from Bartlett (1973) and his political economy model, one can depict the U.S. institutional relationship as follows:

FIGURE 2

THE RESTATED MODEL FOR THE U.S.



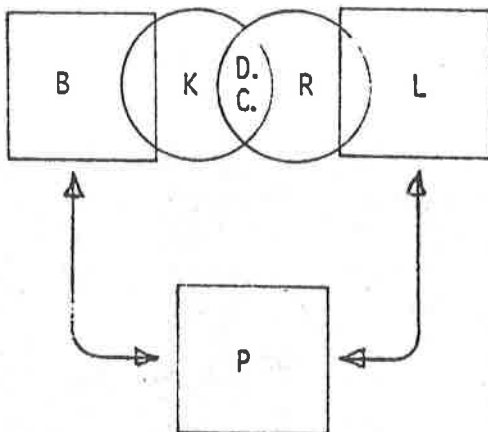
where B = Business
 I = Intermediaries
 L = Lawmakers
 R = Regulators
 P = Public

Barlett and his colleagues in Political Economy assume a set of rational and self interested actors in pursuit of a furtherance of their own individual goals. Figure two is a restated model, and it adds "intermediaries" who are rational and self interested actors. The American system includes 92,500 professional intermediaries; lobbyists, lawyers, and public relations specialists whose livelihood is derived from the adversary relationship between the government and business (Reich, 1981). It is in their self interest to perpetuate this relationship in order to maintain their livelihood.

The Japanese situation seems to be dominated by a set of cooperative intermediaries. The Keidanren (Federation of Economic Organizations) seeks to synthesize the needs of business and present these to the bureaucracy in deliberative councils. The recommendations of these councils are hard to ignore for the lawmaker who usually go along once business and regulators are in agreement (see Figure 3 below).

FIGURE 3

THE RESTATED MODEL FOR JAPAN



where B = Business
 K = Keidanren
 D.C. = Deliberative Councils
 R = Regulators
 L = Lawmakers
 P = Public

As can be seen from the above, it would appear as if the Japanese system is more cooperative in its design than that found in the U.S. A similar contrast can be observed in industry's relationship with the unions, company-employee relationships all the way down to the supervisor and his subordinates.

Furthermore, the incentive systems should be different; one rewarding individual performance and the other rewarding group performance. Hence, many Japanese enter into a life-long commitment to an organization and are rewarded based on seniority along with group bonuses. Corporate growth is the chief performance criteria used by suppliers of capital. This is in contrast to the U.S. situation which is characterized by high job mobility, an individual reward structure, and profits as the main performance criterion. It is therefore reasonable to assume that there are significant differences in the kinds of behavior that are rewarded and not rewarded; the hypothesis being that the Japanese tend to reward a more cooperative, long-term set of attitudes and behaviors than what is the case in the U.S. The actors will, in a rational and self interested manner, seek to maximize their various goals. In common parlance; seek to avoid the sticks in the pursuit of carrots as they are defined somewhat differently in the two cultures. Therefore one may state the differences between the two systems in terms of an expected value equation:

U.S.: $(SR) (P) | (ST/Conf) > (SR) (P) | (LT/Coop)$

Japan: $(SR) (P) | (ST/Conf) < (SR) (P) | (LT/Coop)$

where: SR = Size of the reward

P = Probability of getting the reward

ST = Short term

Conf = Confrontive problem resolution mode

Coop = Cooperative problem resolution mode

LT = Long term

If this is the perception on part of the individual actors, then one must carefully scrutinize the output of the systems with these incentive structures. A short term system may make many minor decisions aimed at maximizing short run rewards. If in this process, the system treats a multiple of symptoms and not the underlying problems, it would seem as if long term welfare might be jeopardized. On the other hand, if a system is set up to handle long term problems only, it will seem rigorous and lack decisiveness and ability to deal with short term fluctuations. Hence, either extreme has its liabilities and may prove dysfunctional especially from a long term societal viewpoint, be it in the form of economic efficiency, social equity, or individual freedom. The ideal system may therefore be one which is long term oriented but with a built-in flexibility to enable it to make drastic changes quickly by abandoning old solutions and adopting new ones in a smooth fashion.

Conclusions and Implications

This article has attempted to present a theory based model of some of the main underlying differences between the Japanese and American Economic cultures. If these are indeed strong forces resulting in contrasting modus operandi, as born out by most of the recent Japan literature, it may help explain the more visible differences in management style and marketing strategy. It may also serve as an indication of what a survival strategy may look like in an increasingly interdependent world.

In terms of international macro marketing there are implications in a couple of areas. First, if our body of knowledge is built around the American economic culture, then it may not be wholly exportable to the Japanese situation especially as it concerns interinstitutional relationships and a firm's goals. Secondly, Dholakia et al (1980) find current marketing through to fit poorly with developing - and socialistic economies. Arndt, in his writings on domestication of markets (1979-1980) and on institutionalism (1981), also point to inadequacies in the basic model of man underlying our literature. The Japanese example further illustrates these inadequacies from the viewpoint of a developed capitalistic country. It brings home the message once again that different situations (resources/culture/philosophy) demand a different set of institutional arrangements; or with commons - different rules for the activities involved in "getting a living."

(For further information about the entries to the contrast model the reader is referred to the current "Japan" literature for historical, anecdotal and empirical evidence).

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Wrong paper

A Thermodynamic Analysis of the Positive
and Negative Macro Systemic Impacts
of the Marketing Function

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A Thermodynamic Analysis of the Positive
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of the Marketing Function

INTRODUCTION

The issue that the principle of entropy poses for marketing is both consequential and paradoxical, and forms one element of a crucial tradeoff facing marketers. Both elements of this tradeoff are hinted at by Phillip D. White in the quote below:

Some macrosystem impacts of marketing on society may be viewed positively: e.g., a high standard of living. Others, including excessive energy consumption or pollution may be viewed negatively (1981, p. 11).

White has either intentionally or unintentionally uncovered what might be called the equivocal principle of marketing. Actually, the elements of this equivocation are more complex and pervasive than the phrases "viewed positively" or "viewed negatively" imply. In fact, they are inextricably and irreversibly intertwined with the process of entropy to which all systems are subject. What follows is an examination of the tradeoff facing the practice of marketing resulting from our drive for want and need satisfaction and the inexorable force of the entropic process.

THE PRINCIPLE OF ENTROPY

Entropy can be viewed as either a process or a state. As a process entropy may be defined as the flow of unavailable energy that resides in an object or system. Low entropy denotes a state of low unavailable energy or less confusingly, high available energy. The entropic flow is from low to high with low entropy states being more desirable from a work-producing standpoint.

Entropy can also be viewed as a measure of system disorder. Low entropy states are highly ordered while high entropy states are highly disordered. Again, low entropy (high order) states are typically viewed as more desirable.

The principle of increasing entropy has achieved such universality that it has been accorded the status of a law in the physical sciences, better known as the second law of thermodynamics. Taken with the first law of thermodynamics (i.e., matter or energy can be neither created nor destroyed) these two laws of nature govern all natural and social processes.

Closed System Entropy

The first law of thermodynamics would be less than problematic were it not for the second law. Entropy can be symbolized as:

$$(A) \quad dS = dQ/T$$

where:

dS = the change in entropy

dQ = the change in heat

T = the absolute temperature at which the heat is absorbed

This permits the observation that within closed systems, the total entropy can never decrease in any change (Uvarov, Chapman & Isaacs 1972, pp. 133-134). Closed systems increase in entropy because there is no replacement for the energy lost due to the second law (the entropy law). This is shown by what is referred to as the Clausius equation (von Bertalanffy 1968, p. 144):

$$(B) \quad dS \geq 0$$

It might be questioned how the energy can be lost if the system does not interact with its environment. Put another way, since the first law of thermodynamics states that the total energy of the system is constant, how can entropy increase? The answer is that the quality of the energy is degraded due to the second law. This in turn leads to the previous statement that entropy could be viewed as a measure of systemic disorder. The implication of this process is that in order to maintain systemic order energy must be expended.

Open System Entropy

Open systems provide a more complex situation for examining the concept of entropy. Since some open systems can receive entropy compensating energy inputs (negentropy) from their environments, Clausius' equation ($dS > 0$) does not hold. According to Prigogine (see: von Bertalanffy 1968, pp. 143-145) the change in total entropy within open systems may be given as:

$$(C) \quad \Delta S_T = \Delta S_e + \Delta S_i$$

where:

ΔS_T = the change in total system entropy

ΔS_e = the entropy from environmental exchange

ΔS_i = the production of entropy due to irreversible system processes.

From the above relationship, several observations are possible.

First, ΔS_i is always positive. This we know from the second law of

thermodynamics. Second, ΔS_e may be either positive or negative. If negative we refer to it as negentropy. Third, when ΔS_e and ΔS_i are both positive, the system is deteriorating very rapidly (e.g., a decaying animal). Fourth, if ΔS_e is negative several conditions may result depending on the magnitude of the negentropy.

Given $\Delta S_e < \Delta S_i$, then entropy is increasing at a slower rate than dictated by the second law. An example of this situation would be the aging process where the entropic process is stalled but not thwarted. Should $\Delta S_e = \Delta S_i$, then the change in entropy will be zero ($\Delta S_T = 0$) and the system will remain constant (e.g., a Markov process that has reached steady state). In the final situation, if $\Delta S_e > \Delta S_i$, the system is increasing in entropy or becoming more ordered. Examples of this situation can be found in the creation of human organizations or embryonic development.

Essentially the differences between open and closed systems is found in the ability of the former to import and export useable and waste energy respectively. No such mechanisms exist in closed systems, hence $dS > 0$. This leads one to view open systems as entropy machines capable of using energy available in their environment and replacing their energy with wastes thereby maintaining order within the system. If the environment in which the open system resides is not an open system itself, it will decay at a rate faster than dictated by the second law since the system or systems within it will be producing a positive ΔS_e . In other words, both ΔS_i and ΔS_e will be positive and the situation will be similar to the example of the decaying animal cited earlier.

A WORLD VIEW OF ENTROPY

Our planet is a closed system with respect to material transfers. This means that on earth material entropy is relentlessly increasing and must ultimately reach a maximum state. The same is true for energy with but one minor caveat. Energy sources are of two kinds, terrestrial and solar. Terrestrial energy is finite, while solar is relatively unlimited in total amounts. However, as Daly (1977, p. 22) correctly points out, solar energy is "strictly limited in its rate and pattern of arrival to earth." The net effect is that solar energy is also limited but renewable.

This closed system environment is inhabited by human beings (an ever increasing population) which are open systems capable of importing energy renewing inputs and exporting wastes back into the environment. What in effect is taking place is that negative entropy generated by open systems in a finite environment is offset by an amount of positive entropy in the environment. Symbolically:

$$(D) \quad \text{Sys}(-c\Delta s_e) = \text{Env}(\Delta S_e)$$

where: $\text{Sys}(-c\Delta s_e)$ = negentropy,

$\text{Env}(\Delta S_e)$ = environmental entropy,

c = the increase due to the transformation process.

and for the entire planet:

$$(E) \quad c\sum -ds_e + \sum ds_i = \Delta S_T = \Delta S_e + \Delta S_i$$

Equation (E) points out that the sum of individual negentropic transfers necessary for maintenance of living systems is offset by

increasing environmental entropy. The coefficient "c" indicates that system processing is not perfectly efficient, hence there is not one-to-one correspondence. Thus, to maintain order within the living systems equation (E) dictates that a diminution of order occur in the environment.

THE PARADOX OF MARKETING

How is the concept of entropy related to the practice or discipline of marketing. Most definitions of what marketing is or does focus either explicitly or implicitly on the idea of want or need satisfaction (e.g., Kotler 1980, p. 19). Wants and needs are satisfied through the provision of products and services which collectively can be thought of as social artifacts. These artifacts provide us with the ability to adapt or extend our human capabilities to more adequately cope with both our social and natural environments.

In short, these products and services are the material and energy inputs we process which are energy renewing (negentropic) and which permit us to maintain order within our systems (either at the individual or organizational or societal levels). Referring back to equation (D), products and services operate on the left hand side of the equation as indicated by the negative sign preceding the Δ .

Obviously, some artifacts are more essential to this negentropic process than others. Plasma, hospitals, and medicines would be examples of those products and services more central to this negentropic process. In a similar vein, clothing protects us from the cold or allows more comfort in the heat. Even the style aspect of clothing provides a certain utility permitting a facility of movement in certain situations.

Moreover, many artifacts reduce the physical demands (energy consuming) made upon us or allow us to accomplish more work with less effort.

Anthropologists have viewed these artifacts as our exosomatic organs or extensions of our physiological functions. Clothes are extensions of our skins, automobiles, extensions of our legs and feet, computers are extensions of our minds, garbage disposals extend the function of our elimination systems and so forth. The total effect of these goods and services is to provide negentropic inputs. Marketing, then, as their human activity which serves to satisfy our wants and needs, performs an essential function in human adaptation and existence by increasing and facilitating our ability to live within our environment.

From an entropy perspective, these artifacts or exosomatic organs of ours reduce the amount of energy we as individuals expend by allowing us to make more efficient use of our available internal energy supplies. Hence, they slow our individual movement toward maximum entropy. Such artifacts, while incapable of reversing the entropic flow are instrumental in forestalling the inevitability of the process on the total human system. Human energy requirements are continually replenished by consumption of these artifacts. In fact our very survival requires their consumption. Marketing, as the process which serves to satisfy our wants and needs is, therefore, inextricably involved in reducing the entropic flow for individuals.

On the other hand, this very same marketing process acts as an entropic catalyst, speeding up the entropy of our total system. The negentropy for the individual is offset by positive entropy in the environment ($-c\sum\Delta s_{ei} = \Delta S_{es}$). It does so by encouraging the consumption of artifacts which operates to increase the entropic disorder of our

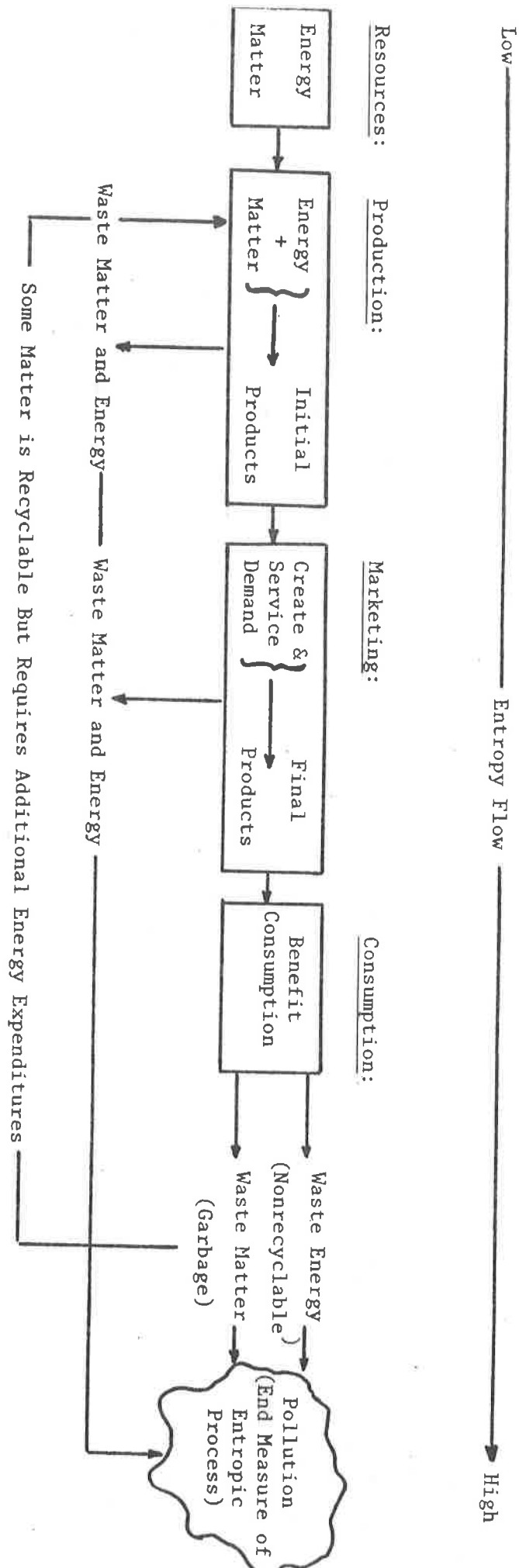
total system. It is in this sense that marketing is an equivocal principle. Figure 1 details marketing's role in this entropy increasing process.

Put Figure 1 here

Matter and energy are combined in the production process to produce initial want and need satisfying artifacts. The procurement of both matter and energy necessitates additional expenditures of both matter and energy. The production process combines these resources through further expenditures of matter and energy into initial products. They are referred to as initial products since it is through the marketing process that they become final products. Additional matter and energy are consumed through the communication and distribution of final products to the market. Packaging and advertising, for example, expend both matter and energy in this process as does the function of physical distribution. Consumers purchase these final products which are themselves bundles of low entropy--benefit producing goods. Through the consumption process, these products become high entropy waste exhausted of their utilities. The ultimate measure of this entropic process is not only the benefit of the artifact, but also the waste matter and energy of the "transformed" artifact.

Within this production-consumption process, marketing acts as a facilitator which provides negentropic goods for individuals. Because of this, the rewards which accrue to marketing are great. After all, from a behavioral standpoint, survival is the prime operating dictum. The result is that the rewards from marketing have lead to strong competition among the providers of goods and services. Alderson (1957,

FIGURE I



p. 108) recognized this in his concept of competition for differential advantage. Through a process of differentiation and neutralization competing firms seek competitive advantages which enable them to survive through growth. The advantage to the initial differentiator is increased sales while the same advantage accrues to a competitor who can successfully neutralize his competitor's advantage.

This competition is the essence of a dynamic economic process, a process which Joseph Schumpeter (1975) appropriately called creative destruction. Competition for differential advantage or creative destruction is the process which stimulates the entropic flow of nonrenewable matter and energy.

The essence of the paradox is that the marketing function reduces the entropy of the human system at the expense of increasing the entropy of our total system. In other words, the marketing function, while extending our human existence is reducing the ability of our environment to support our existence. Returning to our equation:

$$\begin{array}{rcc} \text{All Subsystems} & & \text{Total System} \\ -c\sum\Delta s_e + \sum\Delta s_i & = & \frac{\Delta S}{T} = \Delta S_e + \Delta S_i, \end{array}$$

it is clear how the paradox occurs. Furthermore, it takes no great insight to see the problem produced by this paradox. As we seek new and more comidious means of existing we are in fact reducing the temporal horizon of our existence. We can not create order in one part of the system without creating disorder elsewhere in the system.

MANAGING THE TRADEOFF

Up to now we have concerned ourselves with identifying and examining the elements comprising the tradeoff. A greater question focuses on how the two elements can be managed to the benefit of our society and world. This question is addressed in Figure 2 which diagrammatically depicts the tradeoff.

Assuming we can isolate the contribution to both the entropic process and our standard of living made by the marketing process, a curve similar to the one in Figure 2 would result. Presumably we could draw such a curve for any technological process. Point A defines a socially acceptable minimum standard of living that is tolerable. Below this level governmental programs would be initiated, much like those in the depression years, in order to increase our standard of living.

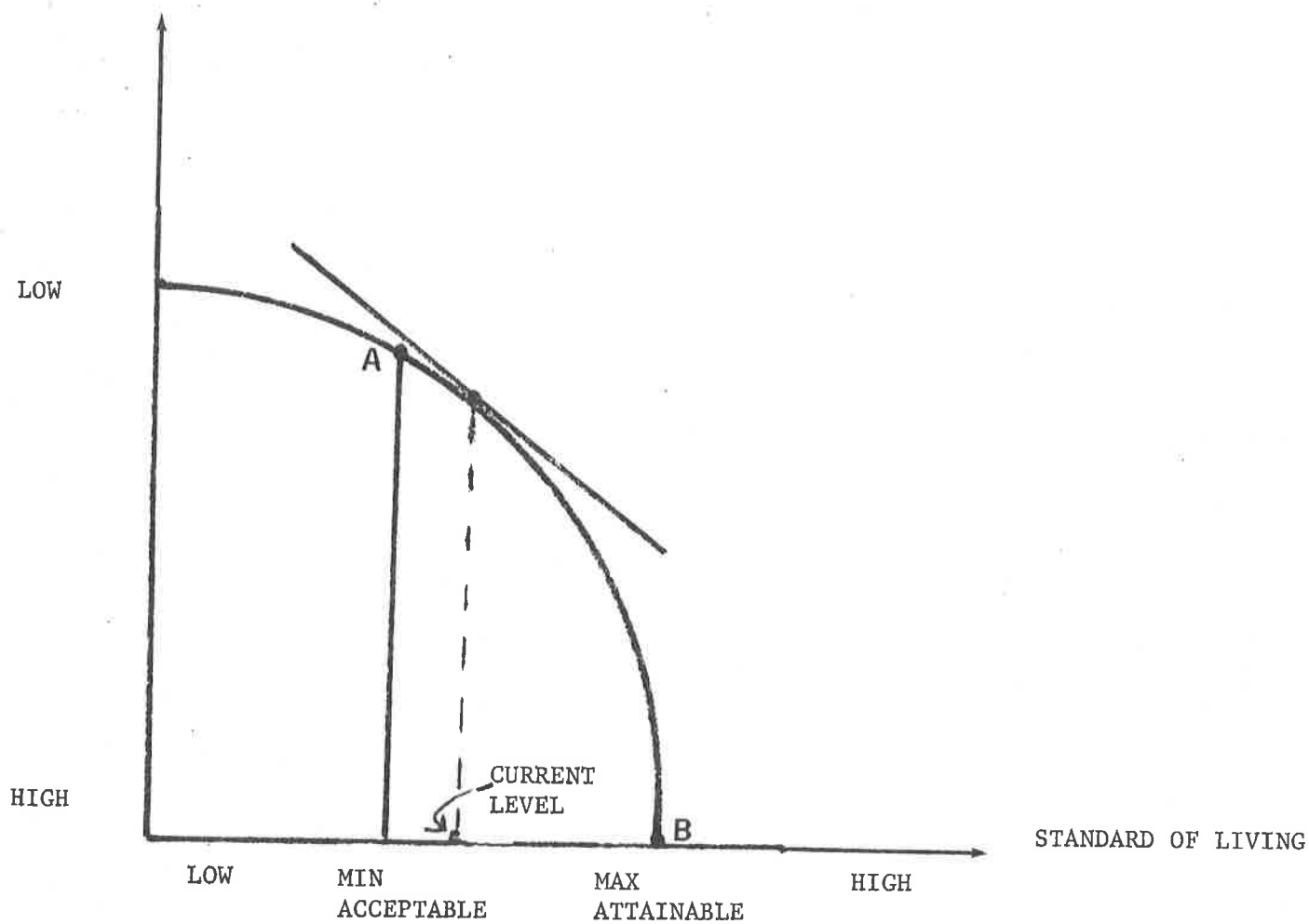
Point B defines a maximum level of standard of living beyond which systemic disorders such as pollution, waste, acid rain and other negative impacts operate to reduce both the quantitative and qualitative nature of our standard of living. Pollutants and acid rain reduce the productive capacity of our land, nonrenewable resources becomes scarcer and scarcer reducing the number of goods produced, more and more land is utilized in dumping etc. Ultimately, as the system tends toward maximum entropy, our standard of living would become a moot issue with survival as the operating dictum.

The distance between points A and B, represents differing trade-off combinations of standard of living and system disorder. Assuming indifference curves could be drawn in, we could identify various combinations of the tradeoff elements that would be socially desirable.

Figure 2

THE TRADEOFF BETWEEN ENVIRONMENTAL ENTROPY AND THE STANDARD OF LIVING

ENTROPY IN THE ENVIRONMENT CAUSED BY SYSTEM PROCESSES



Perhaps more importantly from a marketing perspective is the slope of the tangent to arc AB or what affects the magnitude of the slope. Assuming as we have done that this curve represents the positive and negative macrosystemic impacts of marketing, $-\Sigma\Delta s_e / -\Delta S_e$, the slope of the tangent at any point along the arc AB represents the macrosystemic marketing costs of incremental increases in our standard of living. At point A, increases in our standard of living can be purchased at a lower systemic expense. As we approach point B, the costs increase at an increasing rate. Clearly, this is the marginal rate of substitution of environmental quality for a higher material standard of living.

A second issue concerns marketing efficiency. The more efficient we become as marketers, the more successful we are at encouraging consumption, the faster we reach point B. This is true for any technology which operates on one existing stock of nonrenewable resources. By slowing down consumption, by reorienting consumers toward more qualitative aspects of consumption as opposed to quantitative, the tradeoff curve flattens somewhat, allowing us to achieve higher levels of standard of living at lower macrosystemic expense. This occurs because $-\Sigma\Delta s_e / -\Delta S_e$, the slope of the curve, diminishes.

This tradeoff proves a difficult problem to marketers, made even more so by the temporal horizon in which the elements can be expected to interact. Moreover, our "worldview" is growth or consumption oriented. Even now our social planners are urging us to produce and consumer our way out of our present economic and social malaise.

Some Concluding Remarks

Our intention has been to formalize Phillip's observation concerning the negative and positive macrosystemic impact of marketing on society. In so doing, we have relied on the laws of thermodynamics, principally the second law, to show that the creation of order in one part of the system is possible only by creating disorder elsewhere. Marketing, while creating order in the human system (want and need satisfaction) does so at the expense of creating disorder in the macrosystem (environment).

This is not an indictment against the marketing process. On the contrary, we recognize the utility that marketing has provided and continues to provide our society. We also wish to identify the cost associated with this social utility. At the basis of this tradeoff are the laws of thermodynamics, which in so far as we know, are irrefutable laws of nature to which all of man's activities are subject.

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Wish

"When Dr Marx Read
Dr Kotler's A Dialectical
Look at Animal Markets"

Wish sees it with my comments

Marketing As Production - The Development of A Concept

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Marketing As Production - The Development of A Concept

ABSTRACT

Although marketing has long been distinguished from manufacturing according to the type of utility created, the basis of this statement is unclear. A review of two streams of value theory in the economics literature indicates that there is no analytical foundation for such a distinction. Furthermore, an analytical scheme explicitly rooted in utility theory clearly demonstrates the role of marketing in production.

Marketing As Production - The Development of A Concept

Introduction

"Stated simply, the job of manufacturing is to create form utility, while marketing's job is to provide time, place, and possession utility." (McCarthy 1981, p. 5) This means of delimiting marketing as a field of study is common to many textbooks, and can be traced to the early American marketing literature. Arch Shaw, for example, identifies "three great divisions of business activities:" 1. The activities of production, which change the form of materials. 2. The activities of distribution, which change the place and ownership of the commodities thus produced, and 3. The facilitating activities. (1915, p. 7)

But although this shibboleth has characterized the marketing literature for two thirds of a century, its conceptual underpinnings are unclear. Indeed, Shaw's distinction between marketing and other types of activity is curious because his intention is to find a "simple, unifying concept or principle" common to all business activity. (1915, p. 4) He finds this principle to be "the application of motion to material," but fails to develop this idea. Bohm-Bawerk is cited, and the relevant quotation is: "Man's role in production ... consists simply in this ... Putting objects in motion." (1888, p. 52) This is an unusual reference. First, Bohm-Bawerk is not the originator of the idea which is presented. Second, Bohm-Bawerk's work involves the study of value as related to the usefulness of a commodity, or its "utility," while Shaw's focus upon material attributes suggests a theory of value centered upon the product itself, that is, its exchange value.

This paper demonstrates that the choice of a theory of value is crucial in understanding the role of marketing in the productive process. The discussion will trace two streams in the development of value and utility theories in the literature of economics. Value as the usefulness or utility of a commodity will be examined first, and

then the focus will shift to exchange value. Finally, the implications of these two approaches will be considered.

Value in Use

Although Aristotle clearly distinguished between use value and exchange value (4th c. B.C., I, iii, 10) it is the Schoolmen who give utility its primacy of position in economic analysis by arguing that the origin of economic value lies in the needs of consumers. St. Augustine, for example, states that the price of marketable goods depends upon their usefulness or utility to men. (5th c., 70.13)

The utility concept was carefully developed by Olivi, who asserts that one aspect of the value of a commodity is "according to how it is more or less pleasing to our will to have (it) in our possession." His development of this point represents a clear statement of subjective utility:

To put a commodity to use, as it is taken for granted, is to take it or have it at the disposition of our will, and therefore not a small part of the value of useable commodities is viewed as arising out of the satisfaction of the will, which is more or less pleased in the use of this or that thing and in having it at our command. ... In this way one person considers a commodity, which appears inferior to another, very much to be appreciated. (13th c., f. 295c).

Thus value will vary "within some suitable range, with respect to times, places and persons concerning which, as it has been said before different men differ in reaching an estimation.

And these time and places which influenced value were recognized as contributions made by marketing activities. St. Augustine saw that the work of the merchant involved transporting goods, and that the profit that he earned was a return for his labor just as the wages earned by a laborer. (5th c., 11.16) Subsequent writers continued to develop this theme, adding other marketing activities to their analysis. The thrust of this work is suggested by St. Thomas, who confirms that "The price of saleable things...depends upon

the usefulness to man." (13th c., 77.2) This "usefulness" may be created by changing a commodity, and income is earned as a result of this process; if a man "sells at a higher price something that he has changed for the better, he would receive the reward of his labor." And this "changing for the better" can occur in several ways:

Either because has has bettered the thing, or because the value of the thing has changed with the change of place, or time, or on account of the dangers he incurs in transferring the item from one place to another, or again in having it carried by another."
(13th c., 77.4)

By the close of the Middle Ages the Schoolmen generally acknowledged the analytical similarity between the contribution to a product's usefulness made by merchants and others.

This view is apparent in a 17th century Discourse of Trade (Barbon, 1690) where one has the impression that the role of marketing activities in creating usefulness is so obvious that it does not require elaboration. In the section dealing with "The Value and Price of Wares" Barbon states that "The Value of all Wares arise from their Use ... The Use of Things, are to supply the Wants and Necessities of Man." The discussion goes on to identify two types of wants, those of the body and of the mind. The wants of the mind are infinite: "Man naturally Aspires, and as his Mind is elevated, his Senses grow more refined, and more capable of Delight; his Desires are enlarged, and his Wants increase with his Wishes." But what is the role of marketing in all this? Barbon states simply that "The Use of Trade is to make, and provide things Necessary, or useful for the Support, Defence, Ease, pleasure and Pomp of Life." In the event that this statement is not sufficiently clear, numerous participants in the productive process are listed, among which appear various types of manufacturers and retailers indiscriminately jumbled together. (1690, p. 21)

In the following century the concept of subjective utility was carried to its logical conclusion by Galiani, who asserts "It is certain that nothing has a price among men except pleasure, and that only satisfactions are purchased." (1751, p. 304) This view

provides the basis for the development of the precise mechanism by which marketing activities increase the use value of commodities. An early effort to accomplish this is found in de Condillac's Le Commerce et le Gouvernement. Here the discussion begins with the statement that the value of goods is based upon their utility, or the use which is made of them, and this is based upon men's needs. Two types of needs are identified: those which are "a consequence of our make up," such as food, and those "which are born out of our practice of choosing to satisfy our natural needs by particular methods." It is especially interesting that Condillac sees that social needs, which "are a consequence of civilized societies," are as "natural" as the need for food, for example. (1776, p. 6)

The demonstration of the significance of marketing activities begins in Chapter VI "How Commerce Increases the Stock of Wealth," which opens with the statement:

We have seen that commerce, which consists of the exchange of one thing for another, is carried on principally by merchants, traffickers and wholesalers. We now try to understand the utility which society derives from all these men who have established themselves as agents between producers and consumers.

There are two steps in the argument. First, it is demonstrated that a transaction, in and of itself, creates wealth. This result follows from the proposition that each person's preferences are different, which can be derived from the earlier work of Olivi and others with regard to subjective utility. Condillac takes the position that it is because of these differences in individual preference that the transaction takes place. Each party gains something which they prefer to that which they are giving up in exchange.

This idea that the transaction itself creates value is not often stated explicitly, but it survived until the end of the Nineteenth Century when Henry George offered it as part of his analysis of marketing's contribution:

In itself exchange brings about a perceptible increase in the sum of wealth, ... Each of the two parties to an exchange aims to get, and as a rule does get, something that is more valuable to him than what he gives ... Thus there is in the transaction an actual increase in the sum of wealth, an actual production of wealth. (1898, p. 331)

Condillac, however, did not dwell upon this point; the core of his argument is that the contribution of marketing is indirect; it makes it possible for transactions to take place. The reasoning begins with the Physiocratic notion that land is the original source of all wealth, but then adds the argument that it is the merchants who "are the channels of communication through which the surplus is sold." Alternatively, "Trade gives value to the abundance of production, which without trade, would not have any value;" and it is necessary that specialists conduct this trade, because it would be uneconomic for the producer to go to the market rather than remaining at work in his fields.¹¹ The contribution of marketers is illustrated by an analogy:

A spring which disappears in the rocks and sand is not wealth for me; but it becomes wealth if I construct an aquaduct to conduct it to my fields. This spring represents the surplus production of the farmers, and the aquaduct represents the merchants.

And, in conclusion, "trade is also, in the last analysis, a source of wealth." (1776, p. 50)

J.B. Say accepted Condillac's result, although he objected to the argument that the contribution of marketing is essentially indirect: "The value added by commerce to the things exchanged is not operated by the act of change, but by the commercial operations that precede it." The activities of marketing directly create utility, and in a manner that is no different than other types of productive activities. Transport, for example, increases value because a good is more useful in one place than another: "Transportation is a modification that the trader gives to the commodity, whereby he adapts to our use what was not before available." All branches of industry increase value in this manner, that is, by the "approximation to the customer ... by fitting them (resources) for the use of mankind." (1803, Vol. I, p. 9)

Other Nineteenth Century writers did little more than repeat Say's argument.

McCulloch, for example, says:

If, however, the giving of utility to matter be, as it really is, the object of every species of industry, it is plain that the capital and labour employed in carrying commodities from where they are produced to where they are to be consumed, and in dividing them into minute proportions, so as to suit the wants of

consumers, are really as productive as if they were employed in agriculture or manufacturing. ... We do not owe our fires exclusively to the miner, or exclusively to the coal-merchant. They are the result of the conjoined operations of both. (1825, p. 177)

Toward the end of the century Mummery and Hobson cast the argument in somewhat more modern terms, stating that "logically and in the last resort ... 'utilities and conveniences' are non-material; that is to say, they consist of the 'services' rendered by instruments." (1889, p. 16) Moreover, these writers carried the analysis through an entire marketing channel, rather than employing the wholesaler-retailer framework. For example, the production of a pair of shoes was traced from the animal which provided the hide to the customer, to demonstrate that the raw material gathers values continuous through the entire process "by change of form or change of place."

The modern form of this line of reasoning was introduced by the Austrian School. Jevons asserts that "The keystone of the whole Theory of Exchange" lies in the proposition that the ratio of exchange for any two commodities will be "the reciprocal of the ratio of the final degrees of utility of the quantities of commodity available for consumption after the exchange is completed." (1871, p. 95) It is noted that this proposition is limited, as when quantities are not infinitely divisible: "There is always, in retail trade, a convenient unit below which we do not descend in purchases. Paper may be bought in quires, or even in packets, which it may not be desirable to break up." (1871, p. 125) A corollary, of course, is that marketing activity which enables purchasers to more closely match the size of the unit purchased to the amount required results in exchange being more perfectly adjusted.

From his general proposition Jevons derives a result which counters the "fallacious tendency to believe that the whole benefit of trade depends upon the difference in prices." (1871, p. 142) That is, "He who pay a high price must have a great need of that which he buys, or very little need of that which he pays for it; on either supposition there is gain by exchange." The general rule is that "no one will buy a thing unless he expects advantage from the purchase." (1871, p. 145)

In his chapter on "The Theory of Exchange" (Menger 1871) develops an argument similar to that of Jevons, in which two individuals adjust their assortments of goods by exchanging, and thereby increase the utility for each party. In the concluding paragraph of this chapter Menger clearly states that the work of marketing contributes to the well being of individuals in the same way as other productive activities:

An economic exchange contributes, as we have seen, to the better satisfaction of human needs and to the increase of the wealth of the participants just as effectively as a physical increase of economic goods. All persons who mediate exchange are therefore - provided always that the exchange operations are economic - just as productive as the farmer or manufacturer. For the end of economy is not the physical augmentation of goods but always the fullest satisfaction of human needs. (1871, p. 190)

Thus, during the 19th century numerous writers in Austria, England and France, utilizing the notion of value in use, not only offered a clear conception of the productive contribution to marketing, but also unequivocally demonstrated that there was no basis for an analytical distinction between the contribution of marketing and that of other productive activity.

Value in Exchange

The stream of thought centering upon value in exchange, rather than value in use, is associated with the Classical School, and can be traced to Adam Smith. Smith is fully aware of the utility concept; the term value in use is introduced as "expressing the utility of some particular object." (1776, p. 28) But value in use serves only as a contrast to value in exchange which is the concept to which Smith devotes his attention because of his belief that wealth consists of tangible goods, not the use which is made of them.

But even in the context of value in exchange Smith demonstrates that merchants are productive, just as manufacturers, because their labor "fixes and realizes itself in some particular object or vendible commodity, which lasts for some time at least after that labor is past." (1776, p. 314)

Other passages in the Wealth of Nations present an alternative approach to the problem. Where Smith speaks of the activity of retailers as breaking and dividing goods into small parcels, he argues that this enables the workman, who purchases from the retailers, "To employ almost his whole stock as capital. He is thus enabled to furnish work to a greater value, and the profit which he makes by it in this way, much more than compensates the additional price which the profit of the retailer imposes upon the goods."

A similar argument is presented for the wholesaler, who: "By affording a ready market to the manufacturer, by taking his goods off his hands as fast as he can make them, and by sometimes even advancing their price to him before he has made them, enables him ... to manufacture a much greater quantity of goods than if he was obliged to dispose of them himself to the immediate consumers, or even to the retailers." (1776, p. 342)

Here, as in Condillac's analysis, the contribution of marketing is indirect. But in Smith's scheme the nature of this indirect contribution has immense significance, because it has to do with the division of labor. And the division of labor plays a dominating role in The Wealth of Nations; it leads to increased output. There are two ways in which marketers contribute to the division of labor. First, if a product must perform marketing activities instead of doing his own work, then the potential gains from the division of labor cannot be enjoyed. Hence marketing specialists make possible an extensive division of labor. And, of course, since marketers themselves are specialists, the tasks of marketing are performed at the lowest possible cost. The second way in which marketing makes a contribution arises from the fact that the extent to which labor can be divided will depend upon the amount of work to be done. That is, "The division of labor is limited by the extent of the market." And through its effect on costs, and thus prices, marketing activity increases the extent of the market.

But overall, Smith is exasperating in his discussion of marketing, as well as many other issues. Lines of analysis are suggested, but not developed. Alternative arguments are presented, but the contradictions are not resolved; sometimes it seems as if they are not even noticed. Hence, Torrens is well justified in his comment that "The manner in which trade and commerce aid the production of wealth, the Author does not remember to have seen adequately explained by an preceding writer." (1821, p. viii)

Torrens sees marketing as the transport and exchange of "articles of wealth" which are acquired by means of the other sectors of the economy. The first marketing activity, transport, makes a direction contribution to wealth:

Every operation of industry which is instrumental in bestowing utility must be instrumental in producing wealth. But many articles which possess utility in one place, do not possess it in another place; and therefore, the industry which conveys such articles is instrumental in conferring utility, and consequently in creating riches. (1821, p. 153)

To this extent, Torrens is in agreement with the utility approach as utilized by Say, and to this extent he departs from Smith's position. Yet Torrens remains convinced of Smith's view that there is an indirect contribution.

It is the second marketing activity, exchange, which "has also an indirect operation in the formation of riches" and this is "more important." There are two aspects to this indirect contribution of exchange. First, it makes possible the division of labor: "The divisions of employment to which the exchange of commodities gives occasion, augment, to an astonishing degree, the productive power of human industry." The second role of exchange is to make a continuous market by setting up warehouses and shops for the "collection and vending of commodities." As a result, each producer "knowing where he can at all times be supplied ... is enabled to devote his whole time and labor to his proper calling." In short, exchange gives "a more continued and uninterrupted motion of the cultivator and the manufacturer." (1821, p. 177)

The position taken by Torrens is equivocal, at best. No conceptual scheme is introduced to justify a different treatment of the two types of marketing activity. If

utility is produced by movement in space why is there not a similar effect from movement in time? Alternatively, since there obviously is a spatial aspect to the exchange activity because it involves "setting up warehouses and shops" why is it that transport does not also contribute to the division of labor?

But such apparent discontinuities in analysis might be expected during this period, because the reconciliation of different conceptual schemes is never easy. And this problem is not limited to the Classical economists. Dunoyer, writing within the framework of utility theory provides another example. The argument here is quite straightforward, and familiar. Labor, whether or not it is applied to material objects, produces utility. The baker does not produce bread, but the means to satisfy a desire; everything which man produces is immaterial. But marketing activities are treated differently. Exchange is not productive because buying and selling does not involve any work: "Labor and exchange belong to two categories of facts, which are absolutely distinct in their nature. Labor implies production. Commerce and exchange imply nothing of the kind". (1825, p. 354) Dunoyer seems to be struggling with the remnants of the Physiocratic scheme, much as Torrens was struggling with the authority of Adam Smith.

The work of developing a consistent view of the direct contribution of marketing, in the context of exchange value, continued during the remainder of the Nineteenth Century. It is interesting that the foundation of this work was established by James Mill in the same year that Torrens was arguing in favor of the indirect contribution of marketing.

Mill's Elements of Political Economy is unique in its organization into four chapters: Production, Distribution, Interchange, and Consumption. This is the first time that the treatment of interchange, which other writers referred to as exchange, is dealt with as a separate topic, and it set the pattern for the next generation of writers. This method of organization tended to focus attention upon marketing activities because it

was necessary to assign them to one of the categories in the quadripartite arrangement. Various writers argued for the placement of marketing into one or another of the categories, except consumption, but agreement was finally reached that marketing was a part of production.

The discussion of "The laws which regulate the production of commodities" in Mill's Elements is brief, and does little more than present the statement that "The agency of man can be traced to very simple elements. He does nothing but produce motion. He can move things toward one another, and he can separate them from one another." (1821, p. 5) This brief statement is of the utmost significance, for it removes completely the possibility of any conceptual distinction between the work of marketing and that of any other productive activity. Indeed, it leads to the same logical conclusion as the utility approach.

John Stuart Mill accepted this position, arguing that: "Putting things into fit places for being acted upon by their own internal forces, and by those residing in other natural objects, is all that man does, or can do, with matter. He only moves one thing to or from another He has no other means of acting on matter than by moving it." (1848, p. 24) And this position, inevitably, brought J.S. Mill to accept Say's position regarding the significance of utility:

All the labour of all the human beings in the world could not produce one particle of matter. ... Though we cannot create matter, we can cause it to assume properties, by which, from having been useless to us, it becomes useful. What we produce, or desire to produce, is always, as M. Say rightly terms it, an utility. Labour is not creative of objectives but of utilities.

Yet even J.S. Mill is trapped by the weight of tradition. He goes on to argue that the term "production" must refer not to utility but wealth. And wealth can be created only by utilities which are "fixed or embodied in any object." Even the phrase itself is almost exactly the same as Smith's. There still is no question but that marketers are "productive," but the mechanism is slightly different. Marketing adds properties to objects:

It adds the property of being in the place where they are wanted, instead of being in some other place; which is a very useful property, and the utility it confers is embodied in the things themselves. (1848, p. 47)

This definition of production as adding properties to matter was accepted by the next generation of economists. And, although the process of production was a unitary one, it was nevertheless subdivided according to the types of "properties" added to goods. Sidgwick, for example, offers the tripartite arrangement of agriculture, manufacturing and commerce "according to the nature of the utility produced." (1883, p. 91) The only role that utility played in such a scheme was to provide the basis for determining these subdivisions of productive activity.

Eventually the exchange value created by production was subdivided in the familiar form. Walker, for example, classifies values "in respect of their origin, as time value, place value, and form value." Yet he denies the possibility of any analytical distinction between form and other aspects of utility. Indeed, Walker emphasizes that the creation of value does not imply any change in form:

However little the material may be wrought, and by whatever agencies that little may be effected, we may say that wealth is produced whenever value is added or acquired through any act of process. (1888, p. 33)

Ely lists elementary value, form value, place value, and time value, adding that the marketer produces time and place value: "He adds properties to goods; namely, the property of being in the right place and of being there at the right time." (1889, p. 177) But the connection with utility is made explicit, so that nevertheless marketing is productive in the same sense as other branches of industry.

Man creates no new matter. Neither the farmer nor the merchant adds one atom to the existing material of the earth. Yet they are both properly called producers. What do they produce? Simply quantities of utility. And how do they produce quantities of utility? Simply by putting things in their proper places. Man can only move things, and when he moves them in a suitable manner he creates utilities. (1889, p. 143)

Thus, although the Classical writers emphasized value in exchange, within this scheme there emerged the concept that production did not result in the creation of matter, so that there could be no analytical distinction drawn between marketing and other productive activities.

The notion of different aspects of production, based upon the various types of utility produced, was employed for expositional purposes. Nevertheless the Classical writers made numerous statements denying any essential difference among the various aspects of utility, and therefore there could be no distinction drawn between marketing and manufacturing or other activity. This point is restated in Marshall's Principles, the most influential work in economic theory during the late 19th and early 20th centuries:

Man cannot create material things ... He really only produces utilities; or in other words, his efforts and sacrifices result in changing the form or arrangement of matter to adapt it better for the satisfaction of wants. ... It is sometimes said that traders do not produce; that while the cabinet-maker produces furniture, the furniture dealer merely sells what is already produced. But there is no scientific foundation for this distinction. They both produce utilities, and neither of them can do more. (1890, p. 63)

Development in the Early 20th Century

Arch Shaw's position is not only at variance with the work of earlier economic writings, but also with contemporary work. For example, Irving Fisher postulates two attributes of wealth, "materiality" and "ownership." He then divides the process of production into three categories. The first two of these, "transformation," which changes form, and "transportation," which changes position, are viewed as so closely related that the distinction is "merely one of convenience." (1910, p. 80) Both include marketing activities. The third category of production is "exchange," which alters ownership. Fisher's contribution is his demonstration of the unity of the production process by including marketing activity in each of his three categories of production. Thus the association of marketing with some types of value and production with other types is avoided.

Oddly enough, Fisher even suggests a means of linking marketing activities with utility, although he does not pursue the point. In a short passage tucked into the discussion of Demand, he comments that:

Every exchange affords "surplus desirability" to both parties engaging in it. Each man gets the goods he wants in preference to those he already has. ... There is an actual gain, and this gain consists in "surplus desirability." (1910, p. 297)

This is, of course, equivalent to Condillac's statement in 1776.

John Bates Clark, in classifying labor "according to the particular result which it accomplishes" refers to various types of utility. In his discussion of form utility he explicitly includes marketing activity:

A form utility is created when a raw material is fashioned into a new shape, subdivided, or combined with other materials, as is done in manufacturing and, in a certain way, in commerce. Buying goods in bulk and selling them in small quantities is the creating of form utilities and makes an addition to total wealth.

After offering two examples of this, Clark concludes that "Merchants are not mere exchangers, for they make positive additions to the utility of goods." (1907, p. 12)

These examples demonstrate a common theme, but perhaps the best generalization is that of Taussig, who states that economic theory "is often brought to unity and consistency by the analysis of production as ending in utilities" and adds that "no conclusions of importance for economics flows from the distinction between those who shape material wealth and those who bring about utilities of other kinds." (1911, p. 17)

Implications

Early in this century marketing writers in the United States introduced the distinction between marketing and other forms of productive activity, although contemporary economic analysis explicitly denied that such a dichotomy was meaningful. Moreover, these writers failed to distinguish between the concepts of value in use and value in exchange.

The distinction between these two concepts is important because exchange value has serious limitations as an analytical tool for marketing. First, if production is defined in terms of properties added to material goods, there is no way in which the concept of production can be extended to services. Second, since the argument focusses upon the process by which value is created, it fails to deal with the issue of "what" is created. It is asserted that utilities are created when "matter is put into motion," but what is the mechanism which links production and utility?

The value in use, or utility, approach overcomes both of these problems. Once the concept of production is defined in terms of the contribution to an individual's utility, the analysis can include intangibles. Indeed, the notion of "a bundle of psychological satisfactions" becomes a reasonable description of the output of marketing. Moreover, the link between productive activity and utility can be demonstrated in two ways:

First, a transaction itself increases the satisfaction of both parties; each party receives something which is preferred to that which is given up. This follows directly from the assumption of voluntary exchange by rational individuals. This result cannot be demonstrated if production is defined in terms of physical goods, since the material attributes are not altered by a transaction.

Second, productive activity adapts resources to man's use. There are many dimensions to this adaptation, and by matching the various dimensions more closely to demand requirements, satisfaction is increased. Oddly enough, this approach is consistent with the definition of marketing as matching supply and demand.

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SUMPTUARY LEGISLATION-DEMARKETING BY EDICT

Notes Toward a Working Paper

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Sumptuary laws are rules designed to bar or to inhibit specified consumption practices on the part of all or some segments of society. Perhaps positive consumption mandates, such as Wisconsin's famous law that required a portion of cheese to be served with most restaurant meals or the current motorcycle rider helmet and automotive seat belt laws should be included under the sumptuary rubric. The literature, however, concentrates on prohibitions, limitations and deterrents.

Such legislation, although rarely discussed categorically in marketing literature, should be of at least moderate interest to marketing theorists for several reasons. (1) In its most absolute form, it is the extreme antithesis of marketing. To decree that an individual will be executed or made a galley slave for buying or using some product (Freudenberger 1963) is the epitome of demarketing. Thus sumptuary legislation is a boundary point against which other efforts to shape consumer behavior may be measured. (2) Analysis of experiences in applying sumptuary regulation itself may shed some historic light on macroscopic consumer behavior and economics. (3) Although not pursued in this paper, sumptuary legislation illustrates an important normative question of morals and liberty concerning the extent to which society should act in loco parentis for its members. Quite possibly the marketing community might hold a fairly clearcut consensus on that question in the abstract, although it would probably differ on specifics. (4) Although sumptuary law is generally approached (when it is studied at all) as an artifact of earlier times, we may ask (a) how much sumptuary legislation do we have today, and (b) what conditions might induce increased regulation. (5) Custom and public opinion (which, in a sense is uncodified legislation) and even some marketing activities may be

de facto sumptuary restraints.

The great temptation in writing about sumptuary laws is to dwell on the details. Every bit of consumption trivia seems to have come under control at some time or other. Much of the literature concentrates on control of clothing (fabrics, furs, amount of lace, colors and design, or number of garments allowed in a wardrobe), of food (number of courses, variety of meats permitted in a single dish), of ostentatious expenditures (funerals, weddings, bridal dowries, and entertainments), and of "bad" products (tobacco, alcohol, playing cards, etc.). Many other expenditures, such as those for houses, servants and carriages have come under sumptuary regulation. Some readily accessible sources cite such laws among the Aztecs (Anawalt 1980), the Japanese (Ingram 1910), the ancient Greeks and Romans and medieval and Reformation Europe (Ingram 1910, Vincent 1934, Freudenberg 1963). But some such controls have probably been present in almost every society above some minimal level of organization.

As noted, sumptuary legislation may be desired to apply to everyone within its jurisdiction or it may only be imposed on some demographic, social or economic sectors. Scholars debate whether commodity, sales and use taxes and excise, should be considered sumptuary controls. The best answer lies in the legislative motive. A tax or tariff that is intended to discourage consumption is a sumptuary law. This is true whether the discouraging effect is expected to appear throughout the population or only among the poorer and therefore "lower" classes who are often presumed to have more elastic demand curves.

The major objectives of sumptuary legislation are:

1. To restrain the individual from personally-harmful consumption. The definition of "harmful" may be based on what, on the surface, seem to be variously spiritual or secular considerations. In practice, of course, these two realms often blend.
 - a). Products or services considered sufficiently harmful to all individuals to warrant general discouragement or prohibition. (e.g. at some times and places, alcoholic beverages). Encyclopedia Britannica (Micro-

paedia 1979) is somewhat unique in recognizing that the 18th ("Prohibition") Amendment to the Constitution was a sumptuary law. Rather surprisingly, none of the recent marketing literature that has tried to plot a long-term rising trend in Twentieth Century consumeristic legislation notes that our most thoroughly consumeristic Constitutional Amendment went into effect in 1919.

- b). Products or services considered tolerable (or even beneficial) for some members of society, but sufficiently deleterious to other segments to warrant control. The "protected" groups may be determined on the basis of age, sex, or caste: Normally greater restraint is imposed upon inferiors than upon superiors. (Are there any exceptions?)
 - c). Overly extravagant or lavish and thus potentially ruinous expenditure for products or services which in simpler form or smaller number would be considered acceptable. A Roman rule that a bride might have only three dresses in her dowry is an example.
2. To preserve the social order or class structure.
- a). Rules as to who may wear feathered capes, fur-trimmed cloaks, satin or silk garments or lace-trimmed clothes, or as to who may display coats-of-arms, or live in certain types of houses are not predicated upon an assumption that those things are inherently harmful. Rather the belief is that those things are the proper appurtenances and insignia of status and that newcomers who appropriate these symbols are behaving impertinently.
 - b). Explicit regulations of this sort are most frequently promulgated at times of social change. Then the old aristocracy chafes at the usurpation of both its power and the symbols of that power. Often little can be done about the realities but the endangered elite may try to keep the parvenues from taking on the trappings of power. But static, rigidly hierarchial cultures often impose class limitations on consumption.
3. To advance national interests.
- a). Luxurious living may be restrained, not so much because the individual is seen as worse off as the result of such a lifestyle, but because it may weaken the individuals' capacity and willingness to endure rigorous military service. This apparently was the motivation for the Spartan's harsh living code. Religious vows of poverty and abstinence may in part rest upon beliefs about the elevating nature of restraint (an individualized benefit) and in part upon the appropriate sacrificial nature of nonconsumption as a means of honoring the Deity or of memorializing past sacrifices. But they must also rest upon a belief that undue attention to consumption will interfere with the performance of higher duties.
 - b). National or ethnic dress or the consumption of domestic products may be mandated, and alien items forbidden, to foster as a sense of unity. The requirement of national costume in some medieval Swiss

cantons and probably the emphasis on uniform garments in China during the recent Cultural Revolution are examples. Rigorous religious strictures on unapproved clothing variations may be somewhat similar.

- c). Mercantilistic attempts to restrain imports have induced many sumptuary laws. Various countries at various times have banned the wearing of silks, calicoes and other imported fabrics. Domestic trade barriers, such as relatively recent specific taxes and strictures on oleomargarine in dairy states are similar as are prohibitive international tariff and non-tariff barriers. The only distinction is that the more modern restraints are administered at the points of sale or importation rather than consumption.
 - d). Consumption may also be regulated to preserve other scarce national resources besides foreign exchange. Wartime rationing, energy consumption controls and the consumption patterns permitted in command societies may be intended to allocate limited supplies according to nonmarket criteria and/or restrain total effective demand.
 - e). Miscellaneous other social goals may motivate consumption deterrents. A restriction on extravagant weddings in Lucca (a medieval Italian city-state) is attributed to the fact that the high cost was inhibiting weddings with consequent adverse effects on population growth.
4. Society may also ban some acts of otherwise permissible consumption when performed at times or places where they will be repugnant or harmful to others. The creation of "no-smoking" areas is a perfect example. Many zoning ordinances have a similar purpose. There is nothing inherently wrong with my grazing goats on my lawn or alternatively in building to the very edge of my lot as a means of lawn care if I am so inclined. Neither action would be likely to endanger the national strength. But they certainly would irritate my neighbors and would probably reduce the value of their properties. So local ordinances forbid both. Of course zoning ordinances may also be devices to preserve a social order. Minimum lot sizes, minimum construction expenditure requirements (just the opposite of the usual sumptuary law) and maximum occupancy limits may be devices to exclude people below a certain income or asset level from the neighborhood. De facto involuntary ghettoization, or "redlining" are obviously attempts at restraining the discriminated group's consumption.

As noted, public opinion as well as legislation may restrain consumption. Lauer and Lauer (1980) blame popular sentiment for much of the failure of the women's dress reform movement in the late 19th century. Current dress codes may not be as rigid except among some particularly fashion conscious groups. Nevertheless acceptance of the John Malloy "dress-for-success" credo expresses similar bounds on worktime clothing consumption for some segments.

In general, hierarchial bodies such as corporations and the military are likely

to impose status-based sumptuary rules. The executive pecking order progression of office location, size and furnishings, etc. is too well-known to require comment. Members of some organizations may find that visibly flouting status-norms even in off-duty consumption is politically hazardous. Historically academia was once rife with written and unwritten variations in consumption privileges. The varying design of bachelor's, master's and doctor's gowns illustrates the process of separation. Most types of undergraduate hazing and behavioral restrictions, outside of the fraternity system, probably disappeared with Stover at Yale and the distinctive freshman cap or "beanie." But residence options and automotive driving and parking privileges may vary with academic year.

More generally Brooks (1981) argues that the norm, at least among the lower and upper classes, has become a sort of parody of conspicuous consumption - that consumption must be cloaked in a mocking ostentatious unostentatiousness. No legal sanctions are imposed on violators and the middle classes apparently, according to Brooks, regularly consume in a more Veblenian fashion. Brooks may well exaggerate these supposed norms. But there are always prevalent ideas of "good taste," "what is done," and "genuineness vs 'phoniness.'" Such standards are subjective, evolutionary, so some always seem able to violate them with impunity. But these fortunate personalities are probably the exception rather than the rule.

Enforcement of most sumptuary laws seems difficult. All writers agree on the long-run futility of attempts to outlaw extravagance and/or to reinforce status.

Experience with alcohol, tobacco and other "bad" products shows continuation of consumption even under fairly restrictive legislation. Bonnie (1980) argues that such legislation can have an important symbolic value and that the realistic aim is to discourage rather than eliminate consumption. Yet sometimes the restrictionists must be disappointed. McLure and Thirst (1978) review an extensive literature on the

effects of sumptuary (excise) taxes on tobacco and liquor. They conclude that tobacco consumption is both price and income inelastic. The demand for alcohol has also almost always been reported as price inelastic, within the relevant range, but the studies divide as to whether it is income inelastic. McLure and Thirsk think some of the latter study results may have suffered from various survey problems, but more importantly, they mainly show that lower income consumers seek cheaper, rather than less, intoxicants. The conclusion is that such sumptuary taxes, levied on "undesirable" products, are highly regressive and probably mainly impact lower income consumers' ability to purchase other goods.

Nicosta and Mayer (1976) hypothesize that the diversity of institutions in which consumption occurs in affluent societies, and the weakening of family ties in such societies, inhibits the enforcement of consumption norms. But at that point in their argument they seem to see the institutions that extend the consumption opportunities as the major regulatory force. In any event they raise interesting research questions about the formation and imposition of such norms.

What does the sumptuary law experience suggest for marketers?

(1). As just noted, it shows the strength of consumption urges. In both societies with and without highly developed marketing systems consumers have persisted in trying to obtain what others would deny them. Such efforts may be laudable or deplorable but they demonstrate that demand is at least partly an exogeneous variable in marketing.

(2). To the extent that the past is prologue, the experience demonstrates the areas or concerns to which sumptuary laws and social codes have been addressed. Most of us have obtained most of our experience in an era and environment that have been largely libertarian, equalitarian and affluent. So sumptuary legislation appears quite remote. Yet we have experienced wide swings in popular attitudes during the past half century. Moreover, we know that eras of more formally circumscribed consumption, such as the Victorian or the Puritan, followed more undisciplined periods.

(3). The role of marketing in defining the limits of consumption should be of particular interest to us. Most likely we see marketing as widening the range of consumer choice. In contrast, Hirschman (1981) believes that retail institutions, which she sees as the principal mediators and suppliers of popular culture, becoming more homogenous. This means that the artifacts of popular culture will be homogenized. If so, most consumers will be precluded from non-mainstream choices. The process of standardization can easily become self-reinforcing.

Another manifestation of self-reinforcing behavior in marketing could be serious. Unlike the old discussion of reference groups which assumed that a consumer might wish various types of social mobility, much discussion - and possibly practice - of segmentation seems very static. The marketer who wants to sell a particular product in a particular way is told to address those consumers who are most predisposed by demographics or by AIO to the proposed approach. Carried to an extreme, which may still fall far short of a reductio ad absurdum. This could result in a closed system of segmented products, outlets and promotional media that never reached into new markets. Something of this sort is illustrated by a Ford Foundation study of the economics of the performing arts which concluded that any effort to expand the audience for grand opera would most likely alienate a larger segment of the current miniscule body of opera-goers.

Marketers often like the word "exclusive" as the preferred euphemism for "expensive." It is possible that marketing may also be literally exclusive rather than inclusive.

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COUNTERING THE LIMITS TO GROWTH THESIS:
NEW PERSPECTIVES ON POSITIVE PROSPECTS
FOR GROWTH AND PROSPERITY

-by-

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-for-

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Abstract

The idea that economic growth must be limited by political fiat is widely held. But increasing evidence shows that it is scientifically indefensible. Macromarketing scholars should examine carefully the case for economic growth. This case rests on solid scientific and moral foundations, and is consonant with a marketing-oriented philosophy.

COUNTERING THE LIMITS TO GROWTH THESIS:

NEW PERSPECTIVES ON POSITIVE PROSPECTS

FOR GROWTH AND PROSPERITY

- While you are reading these words four people will have died from starvation. Most of them children. (Ehrlich, 1968, cover)
- We have mentioned many difficult trade-offs in this chapter in the production of food, in the consumption of resources, and in the generation and clean-up of pollution. By now it should be clear that all of these trade-offs arise from one simple fact -- the earth is finite. The closer any human activity comes to the limit of the earth's ability to support that activity, the more apparent and unresolvable the trade-offs become. (Meadows et. al., 1972, ph 6.)
- Suddenly -- virtually overnight when measured on a historical scale -- mankind finds itself confronted by a multitude of unprecedented crises; the population crisis, the environmental crisis, the world food crisis, the energy crisis, the raw material crisis, to name just a few. New crises appear while the old ones linger on with the effects spreading to every corner of the earth until they appear in point of fact as global, world-wide, crises... (Mesarovic & Pestel, 1974, p.1)
- Each day we awake to a world that appears more confused and disordered than one we left the night before. Nothing seems to work anymore . . . The powers that be continue to address the problems at hand with solutions that create even greater problems than the ones they were meant to solve . . . When the whole world begins to breakdown and fall apart, then we must look to the way the whole world has been organized, because that is where the problem lies . . . (Rifkin, 1981, pp. 3-4)
- If present trends continue, the world in 2000 will be more crowded, more polluted, less stable ecologically, and more vulnerable to disruption than the world we live in now. Serious stresses involving population, resources, and environment are clearly visible ahead. Despite greater material output, the world's people will be poorer in many ways than they are today. (Council on Environmental Quality, 1982, p. 1)

These are gloomy predictions. They are typical of the "limits to growth" (LTG) thesis. Here are some more optimistic ones.

- + . . . 200 years ago almost everywhere human beings were comparatively few, poor and at the mercy of the forces of nature, and 200 years from now, we expect, almost everywhere they will be numerous, rich and in control of the forces of nature. (Kahn et. al., 1976, p. 1)
- + Much of this book is devoted to showing that additional persons do, in fact, produce more than they consume, and that natural resources are not an exception . . . Contrary to popular impression, the per capita food situation has been improving for the three decades since World War II, the only decades for which we have acceptable data . . . Agricultural land is not a fixed resource, as Malthus and many since Malthus has thought. Rather, the amount of agricultural land has been, and still is, increasing substantially, and it is likely to increase where needed . . . If the past is any guide, natural resources will progressively become less scarce, and less costly, and will constitute a smaller proportion of our expenses in our future years. And population growth is likely to have a long-run beneficial impact on the natural-resource situation. (Simon, 1981, pp. 4-5)
- + A far-reaching and final revolution is going to take place in our lifetime . . . it is going to change the face of planet earth. It will dramatically alter our life styles. It will effect nearly every person on earth. It holds the promise of improving the quality of life and of increasing the standard of those who wish to participate. (Stine, 1979, p. 1)
- + I do not call it survival with style if we must remain no more than an island of wealth in the midst of a vast sea of eternal poverty and misery. Style, to me, means that everyone on earth shall have hope of access to most of the benefits of technology and industry -- if not for themselves, certainly for their children. (Pournelle, 1979, p. 10)
- + If you're my age (forty) or younger, you've been living in a wealthy world for all of your life. Perhaps you haven't noticed. It's time. The sources of our wealth are running out. Dr. Pournelle will show you where to go for more. (Niven, in Pournelle, 1979, p xvii)
- + Faced with all of this, a mass chorus of Cassandras fills the air with doom-song. The proverbial man in the street says the world has gone "mad", while the expert points to all that trends leading toward catastrophe . . . This book offers a sharply different view . . . it contends . . . that beneath the clatter and jangle of seemingly senseless events there lies a startling and potentially hopeful pattern . . . (Toffler, 1980, p. 1)

The views represented by the first set of quotes are well known to macromarketing scholars. They represent the thesis of limited growth.

The positions represented by the second set of quotes are perhaps less-well known. The paper outlines these views, and argues that issues emanating from them are within the domain of macromarketing, and should therefore be of interest to macromarketing scholars.

This paper does not report a completed scholarly project. It is, rather, an outline of a position which will perhaps seem novel to macromarketing scholars, and which will probably meet less than universal acceptance. It is offered in the hope that it can stimulate constructive dialogue and discussion on a topic which the author believes to be of central importance to macromarketing.

The position of this paper is that the limits to growth (LTG) thesis is wrong. It is wrong in the positive sense of being factually incorrect. And it is wrong in the normative sense of being morally repugnant. The first section of the paper examines criticisms of the LTG thesis. Next, the second section sketches the increasingly compelling arguments for economic growth. The third section argues that this research should be of interest to macromarketing scholars because the LTG thesis proposes political restrictions upon the economic marketplace, and because the thesis itself is an example of the marketing of ideas. The paper then challenges macromarketing scholars to apply the tools and concepts of the discipline to the issues raised, particularly to the normative aspects of these issues.

LTG Criticisms

The Limits To Growth thesis received widespread publicity in the 70s. As exemplified in the quotes above, the central concept is the finite nature of resources, and therefore the necessity for closely managing and

husbanding these resources. Since modern marketing management concepts and techniques, together with the efficient management of scientific research and technological development, and the accumulation of large sums of capital, are largely responsible for economic growth, the LTG thesis is philosophically anti-marketing, anti-technology, and anti-capitalistic.

Criticisms of the LTG thesis, especially Meadows et. al., (1972) have (pun intended) exhibited exponential growth. First, some of the doomsday predictions are simply not correct. Here is Pournelle (1979):

The blurb that opens Ehrlich's tract is clearly wrong. My copy was published in 1969, a year in which fifty-three million people died from all causes. It takes four seconds to read the blurb, so for one person to die each second, 31.5 million -- about 60% of all deaths -- would have had to be from starvation. Taking the U.N. cause-of-deaths statistics and being as fair as possible by including as "starvation" any cause related to nutrition -- diphtheria, thyphus, parasitic diseases, etc. -- we get about a million, or some 5.5%. Dr Ehrlich is off by a factor of 10.

Second, as both Clark & Fulmer (1973) and Cole et. al., (1973) note, the major criticism of the world dynamics model (Forrester, 1971) upon which the Meadows et. al., (1972) study was based rules out the possibility of exponential growth in technological progress. The Meadows team made this assumption because technological progress is difficult to predict. By assuming exponential growth in other variables in the model (e.g., population, pollution, natural resource depletion), the world dynamics model inevitably predicts catastrophe unless such growth is controlled. Pournelle (1979, p. 54) remarks, "Doom criers are fascinated by exponential growth, although I don't know of a single case of it in nature."

Kahn et. al., (1976, pp. 90-1) call some of the data used in the Limits To Growth (Meadows et. al., 1972) into question:

Except for silicon (a semi-metal), aluminum is the most abundant metal in the earth's crust, which contains about 8% aluminum, or roughly 2 million trillion tons. Can that much metal (or even .0001% of it) be used up in forty-nine years, the high side of Meadows' estimate? The resolution of the apparent confusion lies in Meadows' footnotes, where he (sic) explains that he has counted only the aluminum in known reserves of bauxite. In other words, if we ignore every possible source of aluminum except known high grade bauxite deposits, we will come up with his numbers . . .

The controversy over data continues. In her review of Simon (1981a), Gillman (1981) refers desparagingly to Professor Simon's "cracked crystal ball" and makes such comments as "his treatment of data is careless", he is "blind to ecological insights", and "he is willfully wrong-headed." Simon (1981b) responds in kind: "Gillman presents no overall trend data showing that our environment is getting more unstable or vulnerable. She simply talks about phenomena that are "holistic, involving entire biological systems," and says that "the concepts are easily understood." In other words, her conclusion is obvious to her and if it isn't obvious to me and to others without quantitative trend evidence, then there must be something wrong with our vision or comprehension."

I deplore the harsh language and ad-hominem aspects of this exchange. It is, unfortunately, typical of much of the debate on the LTG thesis. Also typical, as far as my research has been able to determine, is the substance of the criticisms of that thesis: the more closely and objectively one examines the LTG thesis, the more uncomfortable one becomes with its assumptions, data and analyses, as well as its conclusions. It is of course, the conclusions rather than the methodology, which is of major concern. Identifying methodological flaws is not sufficient refutation for any thesis. But the LTG thesis can be refuted. New evidence is increasingly available which does just that.

The Case for Economic Growth

This brief review of the evidence is divided into the traditional economic classification of resources: land, labor, and capital -- and information. Although traditional economic analysis assumes perfect information, the fact is that in the real world information is a costly resource.

Land (physical resource)

The earth is finite, said the LTG thesis. Moreover, mankind is using it up. This is incorrect in two senses (physical and economic). The economic discrepancy is a straightforward application of marketing tenets: resource availability is more a function of economic price/cost/volume relationships than of physical magnitudes. Prices depend, of course, upon supply and demand. Continuing the aluminum example reported above, Kahn et. al. (1976) note that "the nation has virtually inexhaustible potential resources of aluminumous materials other than bauxite, e.g., one U.S. deposit of oil shale (250 square miles in surface area) contains 19 billion tons of the material dawsonite (about one-fifth pure aluminum) which is available as a bi-product of extracting shale oil. Of course, we have not learned how to extract shale oil in commercially successful quantities -- yet."

Kahn's examination of the situation with respect to copper is similarly illuminating. Using the scenario format, Kahn et. al. (1976) show that if the price of copper were to rise from \$1 per pound to \$10 per pound, the value of scrap copper would increase from \$.70 to \$9 per pound which would cause people to locate old brass beds, brass handles, copper pots, lamps, and all other copper scrap, as well as some 65 billion pennies suddenly worth a nickel each. Moreover utility companies would

substitute aluminum for copper in transmission lines, and existing lines and buildings would be mined for their copper. Finally, nothing made in quantity from copper today is critical. The electrical and heat-conduction properties of copper are excellent, but substitutes are available and some may even be cheaper once the capital is invested." Indeed, the author encountered deep gloom among copper miners and executives in his recent travels in Australia. The problem was that there was a glut of copper on world markets. This glut has been caused, the executives reported, not by substitution of aluminum as Kahn had predicted, but by substitution of fiber optics and satellite radio transmission of electrical and telephone signals.

Both Kahn et. al (1976) and Simon (1981a) cite numerous examples of resources falling in price. Figure 1 presents one of Simon's examples. Simon, in his enimitable style, summarizes the economist's position as follows:

You may say that I, too, should put my money where my mouth is. Fair enough. This is a public offer to stake \$10,000, in separate transactions of \$1,000 or \$100 each, on my belief that mineral resources (or food or other commodities) will not rise in price. If you are prepared to pay me now the market price for \$1,000 or \$100 worth of any mineral you name (or other raw material including grain and fossil fuels) that is not government controlled (emphasis added), I will agree to pay you the market price of the same amount of that raw material on any future date you now specify.

Simon clearly believes that the earth is not going to run out of resources. Audacious as that claim may be, it pales beside the comment that he attributes to Ehrlich. He reports (1981a), that Ehrlich remarks, "If I were a gambler, I would take even money that England will not exist in the year 2000." Both Simon and I wish that he would offer such a gamble.

But the earth does have physical limits. They may be, as the

sources cited in Kahn (1976) and Simon (1981a) argue, large and renewable, but they are finite. Both Kahn and Simon acknowledge the need for conservation and careful management of these resources. In fact, no one argues against conservation and careful management.

There is another stream of literature, however, which does argue against the finite-earth thesis. There is a group of physical scientists, generally considered more pragmatic and hard-headed than "soft" scientists such as economists, who argue plausibly that mankind need not confine its activities to the planet earth. Distinguished NASA scientist G. Harry Stine (1975) terms this vision "the third industrial revolution." In his terminology, the first industrial revolution is represented by the change from muscle power to mechanical power, e.g., the steam engine. His second industrial revolution is the conversion of the control of those machines from human to servo-mechanisms, e.g., the fly-ball governor, the fuse, the computer. The third industrial revolution will move all manufacturing processes off-earth.

Stine's truly remarkable book describes the development of heavy manufacturing industry in space from initial space shuttle flights to the development of orbiting laboratories to the functioning of commercially-viable manufacturing complexes in space. In the introduction to this book, U.S. Senator Barry Goldwater quotes Dr. David Keller of General Electric Company as identifying markets for space processing and manufacturing that could have an annual value of \$2 billion in the 1980s. In a similar vein (pun intended), Pournelle (1979) comments on the possibility of mining asteroids for metal:

In 1967, the United States produced 315 million tons of iron, steel, rolled iron, aluminum, copper, zinc, and lead. Total metal produced, USA, 1967: 2.866×10^{14} grams. Assume 3% ore, of density 3.5 gm/cm^3 , and the USA produced the equivalent of a sphere 1.7 kilometers in diameter. At 230,000,000 population, we produced 1.25×10^6 grams per capita. To supply the

world with that much requires 5×10^{15} grams or FIVE BILLION TONS. Assuming 3% ore at 3.5 gm/cm^3 , five billion tons of ore is a sphere 2.25 kilometers in radius or $4\frac{1}{2}$ kilometers in diameter. There are 40,000 or more asteroids larger than 5 km in diameter. We may not run out of metals after all . . .

Pournelle, impressively marshalling facts and figures, demonstrates that such mining projects are possible. Moreover, they can be accomplished using primarily energy and materials gathered in space itself. In short, we need not deplete the earth's resources to achieve commercial-scale space mining and manufacturing. Indeed, the scientists show conclusively that shipping raw materials up from earth would be decidedly uneconomic. The proper procedure, they argue, is to lift a small amount of men and materials into space, and use those to create permanent orbiting laboratories, and/or lunar colonies.

Perhaps the most optimistic of this group of scientists is physicist Gerard K. O'Neill. In The High Frontier (1976), O'Neill presented his imaginative blueprint for orbiting space colonies. In a later work 2801 (1981), O'Neill linked space colonies with computers, automation, techniques of energy production, and advances in communications, as "the drivers of change". Energy production deserves a further comment. Both O'Neill (1981) and Pournelle (1979), as well as Kahn (1976), describe several methods of non-polluting, non-resource-depleting energy sources, both on and off-earth. Included are natural resource conversions (oil shale into crude oil, hydrogen into helium, coal into natural gas, etc.), energy collected by large mirrors in space and beamed down to earth (satellite solar power), ocean thermal systems which use the temperature differential between surface water and the deep oceans to generate electricity by spinning turbines (this one is interesting because such stations would as a by-product produce excellent feeding grounds for fish), and nuclear fusion.

All of these authors acknowledge difficulties, but demonstrate that none is beyond current scientific capabilities. And each reminds us that knowledgeable experts have consistently underestimated both the rate and the results of scientific progress. You really must read these books. You will feel much better about the ability of mankind to procure the physical resources needed for growth and development.

Labor (Human Resources)

The necessity for population control is the most oft-repeated and strident conclusion of the LTG thesis. Simon (1981a) tackles this one head-on. The "ultimate resource" of the book's title is people. Here are some of Simon's major conclusions: (1) The contention that poor and uneducated people breed like animals is demonstrably wrong, even for the poorest and most "primitive" societies; (2) Immigration usually has a positive effect on most citizens...on balance immigrants contribute more to the economy than they take, in the U.S. and most other places; (3) In the short run, additional children imply additional costs, though the cost to persons other than the children's parents are relatively small...in the longer run, however, per capita income is likely to be higher with a growing population than with the stationary one, both in more developed and less developed countries; (4) The pathological effects of population density are sheer myth, apparently resulting from faulty biological and physiological analogies with animal populations.

In addition to these essentially economically-based arguments, Simon raises fundamental questions about the morality of population control, both in terms of individual lives, and their potential contribution to mankind, e.g., an unborn Mozart, Michelangelo or Einstein. And

Simon notes that "writers about population growth mention a greater number of mouths coming into the world, but never more brains arriving."

Pournelle (1979), ever the number-oriented physical scientist, offers some interesting statistics. He notes that there are approximately 8 million square kilometers in the U.S., for a present population of about 26 people per square kilometer. If the U.S. population were to rise to 350 million people -- a figure Pournelle (and I) consider quite unlikely -- the U.S. would then have 43.5 people per square kilometer. As Simon notes, a number of authorities have asserted that pathological behavior would result from such human crowding. But, Pournelle points out, most European countries have population densities exceeding 43.5 persons per square kilometer: West Germany has 24 people/km², equivalent to 1.9 billion people in the U.S.; Denmark has 144 people/km², France 93; England and Wales, 322. Even Scotland, Pournelle points out, with its islands and hills and moors has 66 people per square kilometer.

Pournelle, in a recent work of fiction, Oath of Fealty, co-author with Larry Niven, set the story in an arcology -- a 50-level building that is two miles on a side, and contains lodging, stores, conveniences, recreation, employment, and transportation for 250,000 people. Pournelle & Niven paint a convincing portrait of the feasibility of such a dwelling. Finally, here is O'Neill (1981) on the effect of his orbiting colonies on population problems:

Most wars that are not caused by the blind ambition of individual leaders come about as a result of territorial pressures. There is no need for such pressures to develop, at least for thousands of years, on the space frontier. We know that materials exist, even in our own solar system, for the construction in space of earth like-island territories totalling millions of times the land area of the earth. These territories will be indefinitely extensible, and can be enlarged by new construction, without taking over the land across a border.

Capital (Supply-Side Economics)

In describing his third industrial revolution, Stine (1975) notes that the first stage is exploration of space. This stage will be followed by a second stage of exploitation by "practical hard-headed, bottom-line people". He continues (in what he admits is a "rather simplistic consideration of a very complex system").

Exploration is nearly always financed by governmental or quasi-governmental-organizations . . . This is because exploration produces only information. It consumes rather than produces capital. But without exploration, there is nothing to exploit in the future. Exploration, research, and development keep the cabinets of knowledge well stocked so that when the entrepreneur comes to the cabinet in search of new information...he (sic) will find something there. When exploration becomes exploitation, the explorer is no longer required...the center of the stage is occupied by the entrepreneur. He is a capitalist because exploitation generates more capital than it consumes. It creates wealth. It is no longer the realm of government bureaucracies but the realm of free enterprise. The government that finances the original exploration does well when it backs off and recoups its investment by taxing the entrepreneur. By managing material and human resources efficiently and compassionately, the entrepreneur creates something of value that other people are willing to buy. If he does his job right, the entrepreneur ends up with a little more than went into the system to start with. And so does everyone else.

The scientists -- Stine (1975), Pournelle (1979), and O'Neill (1976, 1981) devote considerable portions of their respective books to documenting the enormous potential return on investment which will result from space exploration. Figure 2 is Stine's summary.

Kahn et. al. (1976) reject what they term a "space-bound" scenario in favor of the "earth-centered" perspective, which assumes that "for the next 200 years the vast majority of the human population will continue to inhabit the earth and that extraterrestrial activity will be limited to exploration and modest levels of exploitation." Kahn, in other words, ignores all of the possible returns to capital from investment in space, and concentrates on projecting the effects of economic growth on

earth. Figure 3 summarizes the results of the study.

This study carefully outlines its assumptions, and brackets estimates by a range of two. Population, for example, is expected to be fifteen million people in the year 2176, with a range of 7.5 billion to 30 billion. It is impossible to read this study without appreciating the care and scholarship with which it was formulated.

Kahn concludes:

Certainly one of the most important implications of our projection is that it would be very difficult to construct a scenario that inevitably leads to famine or extreme hazards large enough to cause a major world tragedy...we are certain that over the longer term -- that is within 200 years -- the likely economic outcome is not between poverty and desperate poverty as some doomsdayers (sic) have suggested, but rather between failure and success in which "failure" means a annual per capita product of \$500 to \$2,000 for the poorer countries and "moderate success" means a range of \$3,000 to \$10,000 (in 1975 constant dollars).

Both the space scientists and economists cited here rely implicitly on "classical" or "laissez-faire" economic analysis. Both streams of literature seem to assume that the capital that is necessary to finance their projections can be generated. This may seem a bit naive in the current economic climate of simultaneous high inflation and worldwide recession. The United States and Soviet Union are both madly increasing their defense budgets, France votes Socialist and devalues the franc, Latin American countries experience runaway inflation, the cost of the welfare state is bankrupting Scandinavian economies, and Poland and other eastern bloc countries are threatening to default on billions of dollars in loans to Western banks. Such an economic climate is not conducive to the degree of capital formation required for the economic growth outlined in the previous sections. Indeed, respected economists like Thurow (1981) and Lekachman (1982) write books with such pejorative titles as The Zero-Sum Society and Greed Is Not Enough.

But there is cause for optimism. It is imbodyed in a resurgence of interest in classical economies, popularly termed "supply-side" economics today. This term is in rebuttal to Keynesianism or "demand-side" economics. Three economic journalists have made the essentials of this approach accessible to the intelligent layman. Wanniski (1978), Bartlett (1981), and perhaps most importantly Lepage (1982) quote such classical economists as Adam Smith, J.B. Say, Leon Walras and A.C. Pigou; "Austrian School" economists such as F.A. Hayek, Ludwig Von Mises and Murray Rothbard; as well as modern pundits Arthor Laffer, Robert Mundell, and of course Milton Friedman.

The essence of the supply-side argument is that economic policy should be restructured so as to provide financial incentives for savings and investment. This approach assumes that people react rationally to changes in economic circumstances, e.g., will substitute work for leisure and saving for consumption, if given proper incentives by governmental economic policies. More broadly, the renaissance of classical economic approaches to capital formation rest, as Lepage (1982) points out, on four factors: (1) Monitarism, as expressed by Friedman; (2) Human capital theory, as expressed by Becker and followers such as Lancaster; (3) The property rights movement, particularly the transaction-costs economics of Coase; and (4) The public-choice school pioneered by Buchanan and Tullock.

It is beyond the scope of this paper to review the numerous literature streams in this new approach to economics. The macromarketing scholar is urgently exorted to read Wanniski, Bartlett, and especially Lepage, and to follow up on references offered in those works.

Information (A Resource That Cannot be Assumed Away)

In conventional economic anlaysis, the factors of production are

land, labor, and capital. Information is of no value, since all parties to a given transaction have perfect knowledge. In the real world, however, information is a costly resource. Indeed, as Lepage (1981) notes, the notion of transaction-costs and the need for information to lower those costs gives rise to property rights, and to public-choice studies of Buchanan and Tullock.

Economic growth requires increasing amounts of useful information about human wants, resources, transactions, and government regulations. Sowell's monumental Knowledge and Decisions (1980) explains in rigorous detail with many real-world examples the importance of, and value of, information in marketing transactions. By far the best source of material on the information revolution -- and an optimistic assessment of its impact on the human condition -- comes from Toffler (1980). This is a most significant and welcome change in outlook, since Toffler's two earlier works, Future Shock (1971) and The Eco-Spasm Report (1975) are classic examples of the gloom-and-doom genre. In The Third Wave, Toffler comments:

A new civilization is emerging in our lives...the dawn of this new civilization is the single-most explosive fact of our life times...it is a event as profound as the first wave of change unleashed one thousand years ago by the invention of agriculture, or the earth-shaking second way of change touched off by the industrial revolution. We are the children of the next transformation, the third wave. We look for words to describe the full power and reach of this extraordinary change. Some speak of a space age, information age, electronic era, or global village... third wave civilizations begin to heal the historic breach between producer and consumer, given rise to the "prosumer" economics of tomorrow.

Perhaps it is over-simplification to classify Toffler's comprehensive work as an explanation of new information technology. It is that, and it is more than that. Similarly, O'Neill (1981) has done more than described space colonies. He designates computers, automation, and communications as three of his five "drivers of change." His short chapters on these topics

are perhaps the most accessible treatments of these topics available to layman. And Wanniski (1978) comments:

The world is a closed political economy...all humans are members of the global electorate. In the absence of a world government, towards which it moves...civilization advances and retreats in a trial and error process, edging toward systems capable of producing more capable decisions.

In short, each author notes the relationships among the factors of production, including information, in the generation of economic growth. All agree that growth is possible, and that it is desirable.

Issues For Macro Marketing Scholars

This paper has attempted to outline the evidence for economic growth. The outline is sketchy, but the total body of literature is impressive, and it is growing.

Its essential theme is that economic growth is feasible; moreover, it is morally defensible. Economic growth is to social relationships as speed is to an athlete: it permits correction of mistakes. A fast athlete can recover in time to make the play; the growing economy can better cope with the inevitable economic conflicts between progress and equality. Most important, this literature is consonant with the underline philosophy of marketing: exchanged to mutual advantage. Economic growth stresses, indeed requires, individual freedom to make economic choices. Lepage (1982):

Basically economic freedom seeks to give the greatest possible number of people the maximum change to choose their own way of life...according to each individual's particular structure of desires and without any value judgment about the choice that is made by each individual or group, so long as they do not infringe on the freedom of other individuals or groups to choose their own lifestyle.

Simon (1981a):

I hope that you share my belief that it is good for people to be able, as much as possible, to decide how to run their own lives.

Such a desire for individual self-determination is quite consistent with giving people maximum information about birth control...it is also consistent with legal abortion and is consistent with public health and nutrition measures to keep alive all the children that people wish to bring into the world...but the same belief leads me to be against coercing people not to have children. By definition coercion reduces people's freedom to make their own decision about their own lives.

O'Neill (1981):

First in importance, guard the freedom of ideas at all cost. Be alert that dictators have always played on the natural human tendencies to blame others and to oversimplify. And don't regard yourself as a guardian of freedom unless you respect and preserve the rights of the people you disagree with to open, public, unhampered expression.

Pournelle (1979):

Make do. Expect less. Conserve. Smaller is better. Recycle. Be satisfied with what you have. There's only one earth...now there are some attractive points about all of that...(but) it is not a philosophy likely to appeal to the poor of this world. Like it or not, a conservation-oriented low-growth world economy dooms most of the world's people to rigid poverty... for make no mistake; the consequences of anything like zero-growth, of abandoning the ideal of progress, are real and profound, and may not be reversable.

As the quotes indicate, these authors appear to share essentially a similar philosophy, one which values individual freedom, and therefore requires economic growth. In contrast, those who espouse the LTG thesis have a different world view. Ehrlich (1968), "we must have population control at home, hopefully through a system of incentives and rewards, but by compulsion is voluntary methods fail." Rifkin (1980, p. 195): "the chic upper-class ecologists, with their hot-tubs, their quarter-million dollar homes, their designer clothes and their Mercedes Benzes, had best realize that their calls for clean air must be accompanied by meaningful actions that will lead to a redistribution of their own unwarranted economic abundance. If they do not voluntarily begin to make this economic adjustment, then others will make it for them." Mesarovic & Pestel (1974): "in

natural organic growth proceeds according to a master plan, a blueprint. According to this master plan growth among cells is determined by the requirements of the various organs, and the size and shape of the organs; therefore their growth processes are determined by their functions which in turn depends on the needs of the whole organism. Such a master plan is missing from the processes of growth and development of the world system." Council on Environmental Quality (1981): "absent revolutionary advances in technology, life for most people on earth will be more arduous in 2000 than it is now -- unless the nations of the world act decisively to alter the current trends. (emphasis added by this author).

Note carefully the emphasis on collective action and subordination of individual freedom which characterizes the LTG thesis. Because the size of the "economic pie" is fixed, no one will get enough of it. Since this is likely to bring dissatisfaction, governments must take compulsory action to limit individual freedom. In short, individual transactions in the market place will be circumscribed by political directives. And of course these directives must be designed and implemented by administrators acting in "the public interest." Those who espouse the LTG thesis modestly offer their services to the public for this purpose.

From a macromarketing perspective, this offering is itself a market transaction. These people want to be "paid" in the coin of political power, rather in return on a monetary investment. The LTG thesis is itself a product -- a political policy. Specifically, LTG is a political policy -- to be marketed in the "marketplace of ideas." This being the case, the tools and concepts of macromarketing analysis can and should be applied to an examination of the LTG thesis.

Conclusions and Implications

The Limits to Growth thesis can be analyzed from a macromarketing perspective in both positive and normative terms. In a positive sense, this paper has endeavored to show the LTG thesis is factually untenable. It is based upon questionable assumptions, inadequate or inaccurate data, subjective analytical procedures, and biased interpretations. There is a considerable body of diverse streams of literature which leads inevitably to the conclusion that economic growth is feasible. It would be extremely useful for macromarketing scholars to examine all of this evidence carefully and systematically.

Given that such examination does corroborate the tentative conclusion of this paper -- that economic growth is feasible, then macromarketing scholars should turn their attention to the normative realm. It is in the area of value judgments that the LTG thesis is most vulnerable to criticism from a macromarketing perspective. The author is well aware that the following comments are likely to be even more controversial than the positive assessments of the LTG thesis. These conclusions are tentative, but I will state them clearly.

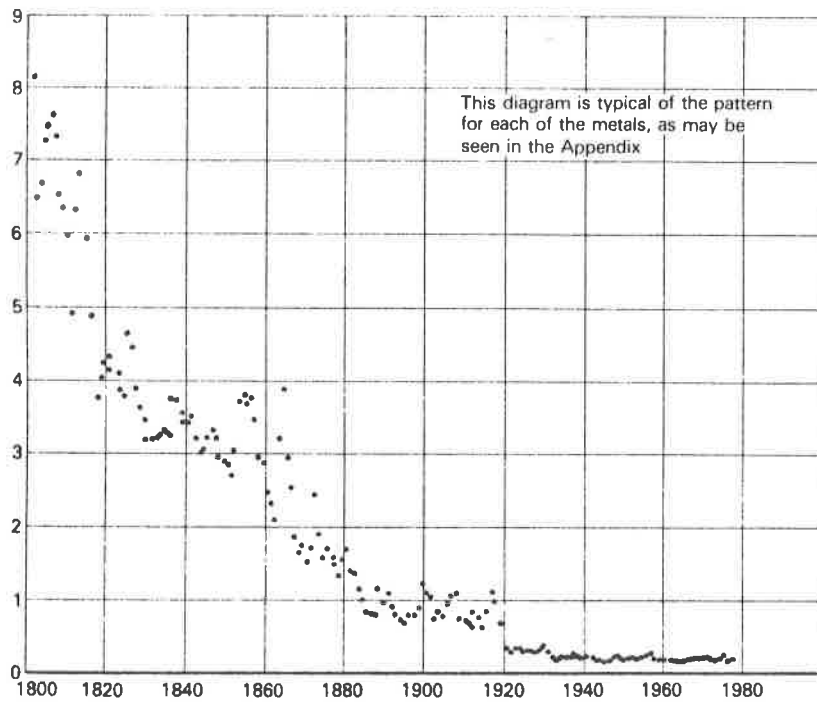
Based on research to date, and subject to repudiation by macromarketing scholars, my tentative conclusion is that the LTG thesis is immoral. It attempts to constrain individual freedom of choice in such fundamental matters as family size and living styles, it condemns most of the people on this planet to lives of poverty and misery, and its adherents engage in crude, unscholarly attacks upon its critics. Moreover, it justifies such actions as being "in the public interest," when the reality is that its major purpose is to preserve the power and influence of public employees (college professors at public institutions, elected officials, and

government bureaucrats). It is, therefore, a philosophy of blatant exploitation of the many by the few. It represents pursuit of power as surely, as blindly, as selfishly as Marxists have accused capitalists of pursuing profits.

Perhaps that tentative conclusion is unduly harsh. It is stated deliberately to provoke debate and discussion. It is hoped that such discussion can be engaged in an objective, scholarly fashion.

FIGURE 1

The Scarcity of Copper as Measured by Its Price Relative to Wages



Source: Simon (1981, p. 18)

FIGURE 2

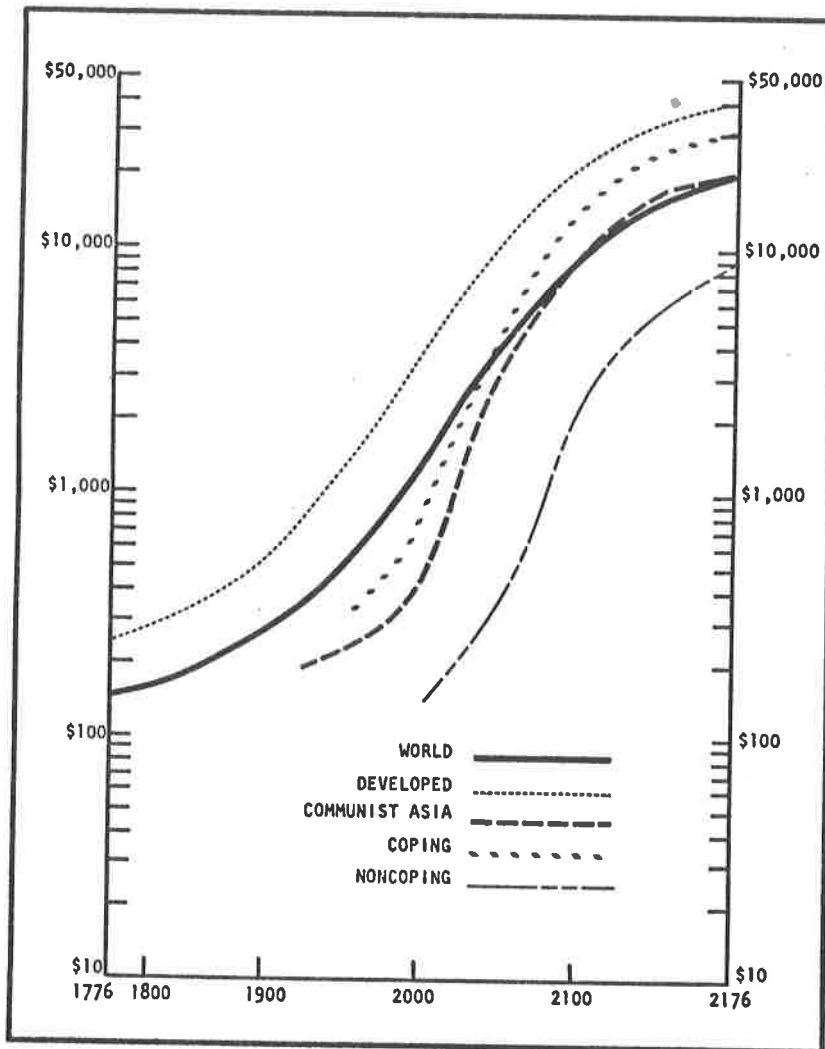
Space Industrial Processes

1. FREE AND CAPTIVE SUSPENSION.
 - a. Crucible Support, Wetting and Nonwetting.
 - b. Sting Support, Wetting and Nonwetting.
 - c. Electromatic Field Support.
 - d. Electrostatic Field Support.
2. MIXING.
 - a. Mechanical.
 - b. Induction.
3. SEPARATION/PURIFICATION.
 - a. Centrifugal Separation, Free or Container.
 - b. Velocity Separation, Condensation or Selective Membrane.
 - c. Electrophoresis.
 - d. Magnetic Separation (mass spectrometer).
 - e. High-Vacuum Refinement, Centrifugal or Marangoni.
4. ALLOWING + SUPERSATURATION.
 - a. Premixed Powder Melting.
 - b. Thermosetting or Diffusion Alloying.
5. CASTING.
 - a. Surface Tension Casting and Free Casting.
 - b. Supersaturated Alloy Casting.
 - c. Composite Casting, 2-State or 3-State.
 - d. Adhesion or Layer Casting.
6. LIQUID STATE FORMING.
 - a. Blowing.
 - b. Electrostatic Field Forming.
 - c. Composite Casting, 2-State or 3-State.
7. CONTROLLED DENSITY PROCESSING.
 - a. Dispersion Foaming.
 - b. Vaporization Foaming.
 - c. Variable Density Casting.
8. DEPOSITION.
 - a. Adhesion Coating.
 - b. Galvanic Plating and Coating.
 - c. Vapor Deposition.
9. SOLIDIFICATION.
 - a. Amorphous Solidification.
 - b. Controlled Crystallization.
 - c. Single Crystal Solidification.
 - d. Supercooled Coining.
 - e. Zone Refining.
10. MELTING.
 - a. Complete Melting, Low and High Viscosity, Overheated.
 - b. Partial Melting, Matrix Melting in Cermets.
11. VAPORIZATION.
 - a. Fractional Distillation.
 - b. Pressure-Drop Vaporization.
 - c. Freeze-Drying.
12. NUCLEAR PROCESSING.
 - a. Fission Breeding.
 - b. Fusion Breeding.
 - c. Irradiation.
13. CHEMICAL PROCESSING.
 - a. Polymerization.
 - b. Free Radical Chemistry.
 - c. Free Atom Chemistry.
14. FERMENTATION.

Source: Stine (1975, pp. 134-5)

FIGURE 3

Gross World Product Per Capita, 1776-2176



Source: Kahn et. al. (1976, p. 56)

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#1
All have to do with
cost

Start p 12
p 15

Consumption Process
(household as a purchase unit
Saves to Good)
Supplier to extend
based on opportunity costs.

See p 17 top
Good idea
See fig 4

One factor as

clock

HOUSEHOLD ECONOMICS APPROACH TO CHANGE

IN RETAILING

by

Make
By decision

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HOUSEHOLD ECONOMICS APPROACH TO CHANGE
IN RETAILING

ABSTRACT

Existing theories of retailing change are mainly of four major categories: pattern models, economic, sociological and behavioral. A new approach is presented here which links retailing change to consumer behavior. The model presented is the household economics model. It views consumption as a process with a cost function whereby changes in the parameters of the cost function generate changes in retailing.

HOUSEHOLD ECONOMICS APPROACH TO CHANGE
IN RETAILING

The continuous emergence of novel forms of retailing and of new retailing institutions is a major characteristic of the retailing scene. Following the supermarket revolution in the 40's, the discounting in the 50's and the franchising in the 60's, the 70's have witnessed the introduction of the hypermarkets, warehouse retailing and catalog retailing, while the 80's promise novel forms of electronic retailing (Bucklin 1972, Mason and Mayer 1981, Rosenberg & Hirschman 1980).

The constant change and innovation in retailing has motivated marketing researchers to identify and formulate various models of retailing change and innovation. The approaches utilized by researchers vary and reflect the disciplinary backgrounds of the researchers in question. Thus, both economic and behavioral frameworks have been used.

A review of the marketing and retailing literature shows however, that research into retailing change has been essentially analysing retailing change in a fairly closed system format. Changes in retailing were explained as primarily stemming from the developments in retailing itself both on economic and behavioral grounds and have not attempted to understand how consumer behavior affects retailing change. While some scholars did point out to the possible implications of changes in consumer behavior on retailing, (see for example Berry 1980) these attempts primarily relied on intuition and common sense observations, rather than on an attempt to construct a fully conceptual framework or model.

As a result, the retailing change literature has not benefited from the substantial conceptual developments achieved in studies of consumer behavior.

The purpose of this paper is to present a novel approach to retailing innovation embedded in consumer behavior framework. The approach utilizes the household economics model recently developed in economics to suggest how changes in consumer behavior will generate changes in retailing. In its first part, the paper presents a summary review of existing theories of retailing change with an assistance of a classificatory scheme. In the second part, the paper presents the household economics model and finally it indicates its implications for changes in retailing.

EXISTING THEORIES OF RETAILING CHANGE AND INNOVATION

A survey of existing models of retailing change and innovation suggests that these can be broadly divided into four major categories; pattern models, economic efficiency models, sociological models and consumer behavior models. Each will be discussed below.

(Figure 1 about here)

The pattern models

The pattern models have primarily explained changes in retailing as reflecting basic repeatable patterns which appear continuously on the retailing scene. Research effort focused on identifying those patterns through an analysis of retailing changes in the past. Emergence of new retailing innovations was explained as resulting from these patterns.

Pattern theories can be, in turn, broadly divided into two groups: cyclical and evolutionary. Evolutionary theories propose that all retailing institutions go through a hierarchy of well defined stages where one stage must follow the other, at a given order. Consequently, one can predict exactly at each stage, what will happen next to a particular institution and what format it will adopt. Cyclical theories propose that patterns repeat themselves over time. Therefore, the same type of retail institution will reappear again after a completion of a development cycle. The Wheel Model. In the group of cyclical theories, the wheel of retailing model is the most popular (McNair 1958, Hollander 1960). Since its original presentation by McNair, close to eighty studies have analysed and discussed it and today, it is considered to be a basic model of change in retailing. (Hollander 1980). The model envisions all retailing

institutions along the dual dimensions of quality-service and price-margin. It then proposes that retailing institutions change, by changing their service-margin mix. As a result of observation of the development of retailing innovations in the first part of this century, McNair proposed that all new retailing institutions adopt the same mix as they appear on the market, and change it in a similar fashion as they develop later on.

Thus, according to the wheel theory, new retailing institutions appear on the market offering limited services with low margins, which allow them to offer consumers goods at lower prices than already established institutions do. The model asserts that the development of new retailing institutions are invariably governed by a well identified trend of trading up. To differentiate themselves from their low cost low service competitors, to increase margins and to enhance status, new retailing institutions increase their service content and upgrade their merchandise. To maintain its improved service position the institution needs to increase margins and therefore raise prices.

The result is the development of a marketing gap at the lower end of the retailing mix in the particular market. This offers a marketing opportunity for entrepreneurs to enter the market by filling this gap with a novel form of retailing institution which again offers a limited service-low price retailing mix. In turn, it is expected to follow the same development format as its predecessor and trade up later on.

The retail accordion theory developed by Hollander (1966) is another cycle theory of retailing development. Its focus of analysis is on the extent of product assortment offered by retailers. The theory identifies two types of retailing institutions: the broad assortment retailers such as department stores, general stores, etc. on the one hand, and the narrow

line stores typified by specialty stores. According to the theory, domination by the former, alternates with domination by the latter as over the years retailing moves from broad to narrow lines and back. A supporting view has been expressed by Dalrymple and Thompson (1969).

Evolutionary theories propose that all retail institutions go through the same well defined stages. One such theory is Regan's simplex-multiplex-omniplex classification scheme (Regan 1964). According to Regan's theory, retail development can be broken into three stages which represent various levels of complexity in the product service mix offered by the firm. In the initial stage (the simplex) the retailer offers one level of product quality and a corresponding level of service, such as high product gravity and high service, average or low gravity service. Then, to attract new customers, the retailing firm next expands to multiplex trading by expanding the variety offered either of product or service choices. Omniplex trading is reached by offering all possible combinations of product-service mixes.

Another evolutionary model of retail development, based on Hegelian thought is the dialectic process presented by Gist (1971). Institutional change is viewed as a dialectic process where there is conflict between a thesis, or the established institutional form, and the antithesis, the innovative institutional form. The conflict between the two is for domination of the particular industry. The conflict, however, does not end up in the victory of one or the other. Rather, it lends to a fusive process in which a synthesis takes place. A new firm(s) emerge which combines characteristics of both the original institutions.

Alternatively, both of the original adversaries adopt some characteristics of their opponents and thus become more similar to each other. One example

often used for the model is the mutual adjustment process of downtown department stores and suburban shopping centers in which the former finally started to operate department store branches in the shopping center.

A life cycle theory of retail development is a recent theoretical conceptualization of the evolutionary approach to change in retailing. (Davidson et al 1976). Similarly to the product life cycle concept, it suggests that retailing institutions like products must pass in their development through the familiar stages of introduction, growth, maturity, decline and termination.

The whole process of attempting to discern patterns of retailing innovation has been subjected to much criticism. In his critique, Hollander (1980) lists several major flaws of mechanistic patterning. He proposes that their methodological, conceptual and empirical shortcomings have severely limited the theoretical power of the models to explain and to predict retailing change besides providing broad generalizations. These points can be summarized as follows:

1. Lack of theoretical base. Some of the pattern models such as the wheel or the accordion theory, lacks a solid theoretical base. The "rules" developed present inductive reasoning of the researcher based only on observation or industry experience, without any anchor at economic or behavioral theory.

2. Mechanistic emphasis. Many of the researchers were entranced by their search for generalizable patterns instead of search for explication and understanding. Once a certain rule was identified, all retailing innovations were expected to follow it without attempting to explain the rationale for their development.

3. Weak empirical base. Most of these models were not developed enough to be tested through statistical analysis. Analysis has been therefore clinical and relied on review of selected historical cases. Data used were often historical evidence such as executive statements, journal articles or historical reviews. Use of statistical data has been limited.

Economic models of distributive change

Economic models of distributive change have focused on identifying factors which affect such changes, but which are exogenous to the change process itself and stem from external economic forces.

The Spin-off model. The spin-off model has been initially introduced by Stigler (1951) and elaborated further by Mallen (1975). This approach explained the emergence of new channel institutions by adopting an economic point of view anchored at the micro-economic theory of the firm. It viewed the channel as an economic extension of the producing firm which spins-off functions to channel intermediaries. The rationale being that due to economies of scale and specialization, the latter can perform these functions at lower costs, than the producing firm.

Various researchers focused on different aspects of such specialization. In general, three areas have been highlighted: information processing, physical flow handling and risk handling. Balderston (1964) emphasized savings generated in information transfer; Alderson pointed out to savings generated in handling physical flows through a more efficient assortment creation (1967). Baligh and Richards have also focused on physical flows savings, emphasizing the role of intermediaries under conditions of uncertainty (1967). Bucklin (1967) pointed out the role of an intermediary in reducing risk in the marketing channel, through postponement and speculation processes.

The economic approach to marketing channel development and innovation presented institutional changes in the marketing channel as a structural response of the marketing channel to pressures of economic factors, namely that of competition. Thus, all these scholars assumed in essence that the marketing channel shapes its structure in a way which allows it to compete best with other channels by lowering its operative costs. Structural change was assumed to allow the channel to operate at lower costs and thus be able to offer its customers marketing services at lower prices. As all distributive channels were assumed to be competitive, the result is a structural change in the industry as a whole.

Structure-performance model. Bucklin and Carman (1974) have taken this notice further and proposed that one can analyze the whole issue of channel structure in terms of the industrial organization theory (Bain 1959, Sherer 1971), whereby an industry structure affects conduct of industry members which in turn affects their performance. Feedback from performance thus affects in return the industry structure. In its basic form, the model in essence is a version of the classical micro-economic model of competitive equilibrium among firms. Applied to a marketing channel environment, the model presumes a similar relationship between the structure of a channel in terms of the number and type of channel intermediaries, their conduct and the "performance" of the channel in terms of its costs and effectiveness.

While the model was not expanded further in channel literature, it provides a useful framework to analyze retailing institutional change. Thus the degree of competition as reflected in the competitive interaction of retailers affects the channel performance. Limited competition and monopoly power, leads to lower level of channel performance (e.g. excessive prices and above normal retailing profits). Those in turn will create a pressure in the industry for change. Such a change may take form of new

retailing institutions which will compete with the established, more profitable ones over excessive margins.

Review. The economic approaches to channel development have thus focused on the general structural changes in distributive channels. They are useful in explaining why intermediaries appear in the channel and what are their functions. They can also be used to determine number of levels to be expected in a channel. However, they are less appropriate for explaining emergence of specific institutions within a given channel level such as retailing.

Behavioral Based Models

Behavioral models have been primarily concerned with the impact that social interactions within the channel affect channel structure and generate channel change. Basically, three such models have relevance here; the power-conflict model, the countervailing power model and the channel position model.

The Power Conflict Model. Exercise of power and conflict development within the marketing channels have been studied extensively in the marketing literature (See a review in Stern and El Ansary 1977. For more recent work see Etgar 1978, 1979, Brown 1981). Etgar (1977) has proposed that intra-channel conflicts can motivate some channel members to leave existing channels, develop new channel structures and in the process mould new retailing institutions. An example was taken from the insurance industry where independent insurance agents have traditionally exercised substantial control over channel operations. Some insurance companies which were unable to break the grip of agents over the channel, decided to develop separate channels where insurance was distributed by captive agents or by company employees

(the so-called direct writing system). Thus, the pressure to develop new patterns of channel control has generated novel retailing institutions. The Countervailing power model. A somewhat related model is the countervailing power model originally advanced by Galbraith (1956). The model basically proposed that accumulation of power within an economic system calls for countervailing pressures to keep that power under control. Initially, when manufacturing units were fragmented and small, the forces of competition fulfilled the controlling role. However, as manufacturers started to become larger, these did not suffice. Another form of controlling factor had therefore emerged vertically within the marketing channel itself. Large retailing units accumulated power and countervailed that of the large manufacturers. Another form through which retailers accumulated power to countervail that of the manufacturers is through backward vertical integration by acquiring or controlling manufacturing facilities.

Thus, the countervailing power suggests that emergence of new retailing institutions as department stores, chains and supermarkets can be explained by the drive at the retailing end to accumulate power to countervail that of the large manufacturers. To do so, retailers had to develop large scale units based on mass appeal.

While the countervailing power theory is appealing conceptually, it has generated a substantial controversy. Heflebower in an insightful analysis has argued that there is a very good economic rationale for large manufacturers and retailers to avoid operating in the same channels and he has also brought some partial evidence for support (Heflebower 1957). However, more advance has not been made in this area since then.

The Channel Position Model. Kriesberg (1969) in his study of steel distributors presented an additional behavioral model of retailing change, which in essence is based on the diffusion theory. He proposed that channel innovation stems from the inherent conflict in the channel among channel members who occupy different channel positions. Channel innovation is thus reviewed as a part of the struggle between transient channel members who are not inherent members of the channel and do not feel bound by its prevailing culture, and those channel members who occupy a more dominant position in the channel: insiders (the dominant channel members), the complementors (who perform functions complementary to those performed by the insiders and the strivers who want to become members of the established channel).

This categorization is obviously similar to that used by the diffusion theory and its notion of innovators (Rogers and Shoemaker 1971). Similarly to premises of the diffusion theory, Kriesberg also proposes that it is the outsider firms who come from outside the channel, who are most likely to introduce basic innovations in the channel structure, and new retailing institutions. Outsiders are expected to be more prone to introduce drastic changes because they do not have any vested interests in maintaining the status quo. They have nothing to lose and everything to gain by changing channel structure. Discounting and fast food franchising are classic examples for this model.

Yet, the channel position model has not been subjected to a vigorous empirical test. Kriesberg himself found some evidence in his own study that indeed the outsider steel distributors were more prone to accept changes compared to other categories. However, no additional effort was made to test this theory.

A CONSUMER-BASED APPROACH TO DISTRIBUTIVE CHANGE

The approaches presented above have largely ignored consumer behavior and have not analyzed directly its impact on retailing development. The household economics approach focuses on this issue.

To explain the potential implications of this model for retailing, a more detailed and clearer definition of a consumption process must be first made. The focus of the analysis in consumer-oriented research has been mainly so far on the motivation of buyers/purchasers and on factors which lead to or influence their choice and on decision making processes (see for example Engel Kollat and Blackwell 1977 and Assael 1981). Thus, much of what is defined as consumer behavior is in reality the study of purchasing behavior whereby the consumer is viewed primarily as a decision maker concerned with selecting/purchasing a product or a brand in order to satisfy various needs.

Yet, purchasing is only one stage within a long chain of activities comprising the consumption process. To derive utility from consumption, consumers have to perform various activities before and after the selection of the product to be consumed. The complexity of the involved process can vary; while in some cases, few and relatively simple operations are involved, in others, a long chain of different operations must be completed.

Thus, to have a dinner, relatively limited effort is required and the whole consumption sequence should last no more than a few hours. Compare it now to the "consumption" process involved in skiing. It usually involves taking lessons, buying or renting equipment, and proper clothing, travelling to a ski resort, getting properly dressed, etc. Following the act of skiing itself, the skier has to undress, return equipment, drive back home, etc. This is a long process which can span over an extended period; equipment and ski-wear may be purchased months ahead of the actual ski season; ski lessons may be taken throughout several weeks or even months. Yet all these activities have to be performed by an aspiring skier, and are required stages in the pertinent consumption

One attempt to analyze consumption as in a hierarchical process composed of several stages has been made by Etgar (1978). These stages are described in Figure 2, and include information seeking and processing, purchasing, preparation, use and disposal.

(Figure 2 about here)

Information Seeking and Processing. When consumption calls for the use of market-purchased goods and services, consumers may be required to devote some time and effort to search for information about and for suitable products and retail outlets. The search effort involves shopping, reading consumer reports, utilization of marketers' promotional messages and intake of word-of-mouth and any other kind of pertinent information. The end result of information seeking is the identification of potential product brands to be purchased and of marketing organizations from whom consumers plan to purchase the pertinent products.

Purchasing Activities. The model proposes that following information seeking and processing consumers engage in the purchasing activities themselves. Those involve activities associated with the transfer of the purchased products and their ownership rights from sellers to the consumers.

To transfer ownership rights, consumers (as well as sellers) must often engage in negotiations whereby the exact conditions of exchange, such as terms of payment, credit, time of delivery, warranties, etc., are determined.. They must then pay for the purchase, and complete the necessary legal requirements.

After products are sold, they have to be transferred from the place of sale to the place of use. Consumers have to transport the products themselves or arrange for delivery. If consumption of the purchased product cannot be performed at consumers' place of residence, they may be required to travel to places where consumption takes place. Such is the case with spectator

sports events, performing arts, camping trips, etc.

Preparation activities. Many products cannot be used directly by households but have to be further prepared within the household. Consequently, the next set of activities in which households are engaged in the consumption process are those associated with preparing products for use. Thus, when consumption is carried out simultaneously with several products, collection and matching is required and suitable assortments have to be prepared. Storage is another function frequently performed by households. Many products such as food, detergents, and health and beauty aids are consumed on a frequent basis. Yet consumers may find it more useful to purchase them at a less frequent rate than they are consumed. This relationship between the use and the purchasing patterns forces many consuming units to store products over time, from the time of purchase till the time of consumption. Change of form is required when products bought by households are not ready for consumption. For example, purchased food has to be cooked, clothes have to be altered, etc. The extent of processing performed by the commercial entities which market the products. Thus, precooked rice requires less preparation time than ordinary rice, assembled toys require no preparation, while disassembled ones do, etc.

Use. The next act is that of use whereby the consuming units often "destroy" the products. It is followed by disposal activities whereby consumers get rid of the residual and unused parts of products. Scraps of food, packages, and theatre tickets have to be disposed of; utensils and cutlery have to be cleaned, etc.

The recognition that consumption requires households to devote own resources for generating benefits leads to the notion of a household production function developed in economics.

The basic notion of the model is that households are producing units which utilize goods and services which they purchase jointly with household inputs to produce services ("commodities") which are consumed (Becker 1965). The consumer attempts to maximize a utility function defined over the set of these commodities. This approach allows to consider consumption as a "production" process, designed to provide households with a stream of services, which provide benefits.

Following its original exposition (Becker 1965), the household economics model has been applied to various areas of human behavior such as church attendance (Azzi and Ehrenberg 1975), suicide (Hammermesh and Soss 1974), demand for health (Grossman 1972), education (Michael 1974) and transportation (Gronau 1970). In marketing, the model was applied to problems of brand loyalty (Silber and Lieberman 1980), and identification of deal prone segments (Goldman and Johansen 1978, Blaltberg et al. 1978).

Household Production and Retailing Institutions

Many of the consumption activities performed in the household can be separated and spin-off. In that case, they can be entrusted to specialized institutions which can perform them for the household in return for a service fee. Some of these activities can be then embodied in the product itself. Thus, consumers can be relieved of performing some preparation

activities by purchasing semi-prepared foods or using high speed preparation machinery (mixers, radarange, etc.). Small size portions reduce for consumers storage costs while "ready to eat" dinners reduce need to create proper assortments, as do sales of matching clothing, or furniture sets, or turnkey furnished apartments. Similarly, consumers can reduce their disposal activities by buying disposable utensils, self cleaning ovens, etc.

Household services can be also spun off independently of the products bought. Such services can be supplied by independent agencies (e.g., catering services) or by retailing institutions. Thus, retailers can reduce delivery costs to consumers by arranging delivery itself or by operating closer to consumer's place of residence. It can reduce consumer transaction costs by eliminating the need for physical review of goods to be sold and using mail or telephone for placing orders.

The extent to which consumers will spin-off activities to external agencies is an economic issue. It depends on the relative costs of performing these activities in the household via a vis their price in the market. To decide that, one must consider the household consumption cost function and its parameters.

A cost function can be then set up for each particular group of products which provide a prespecified set of benefits. One can construct the following function:

$$(1) \quad C = f(P, T, K, V_1, I)$$

where C = total costs of consumption of a given set of benefits
for a consumer

P = average price of purchased products

T = amount of time used by consumers in the consumption process

V = value of time used by consumers in the consumption process

K = amount of capital goods and other resources used by consumers in the consumption process

I = cost of capital goods used by consumers in the consumption process

f = a "production" coefficient which reflects consumer efficiency in consumption in using household resources to produce services.

Consumer costs include first of all, the actual prices paid for the products. Lower prices reduce total consumer costs, provided they do not involve higher costs in terms of increased consumer inputs.

Consumption is also a time consuming activity. As indicated by Becker (1965) and Etgar (1978), time has an economic value for consumers as it can be used for other utility or income generating activities. To free time for shopping, consumers may often have to make explicit expenditures; hire a babysitter for children, take time off work or use vacation time (for special purchases like homes or automobiles) etc. Consequently, shopping which demands less time from consumers, lowers consumer total shopping costs. Similarly, shopping opportunities which allow a consumer to use less expensive time slots (weekends, nights, etc.) for shopping will lower his/her costs as well.

Besides time, consumers employ household capital goods in the consumption process. They use cars to reach shopping destinations, deliver goods to their residence or transport themselves to a consumption place; refrigerators and freezers are used to store frozen foods and cabinets and kitchen storerooms for dry goods. Both involve capital outlays on

consumer storage infrastructure.

Finally, consumers' total shopping cost depends also on their consumption productivity (f), which reflects their ability to utilize resources efficiently in the consumption process. More productive consumers can achieve greater efficiencies from their time and capital goods by better shopping, finding better bargains, higher quality goods, etc. Marketing evidence shows that consumers vary in their shopping efficiency (Sexton 1974, Goldman 1977) as some consumers succeed in finding more low priced goods and enjoy better services than others.

Total consumption costs depend therefore on the value of the various cost function parameters as defined in equation (1). As such parameters increase, consumers will find that other things being equal their total consumption costs increase as well. This will motivate them to substitute in-household production for purchase and they will purchase these services from external institutions. This increase in the value of time for consumers will increase costs of using time in the consumption process and will spur search for retailing opportunities which can reduce it.

The value of these parameters is not equal for all consumer segments. Thus, some consumers may place high value on their time; others may value it less. Such differences create differential demand for retailing services among various consumer segments.

Household consumption cost analysis allows the design of household demand function for consumption services. This demand function is sloping downward indicating that at higher prices, the household will demand less of services; as prices of such services in the market decline, the quantity demanded will increase.

Figure 3 About Here

The demand function depends on the parameters of the household consumption cost function. Changes in these parameters will therefore shift the demand function upward or downward. Movements of the demand curve create new retailing opportunities creating situations where consumers demand a novel service mix from the retailing sector. Identification of such a novel demand generates then a retailing change.

CHANGES IN COST PARAMETERS

To identify prerequisites of retailing change demands, therefore, that first, one identifies environmental factors which affect household cost parameters. Figure 4 presents several such factors and traces their impact on these parameters. Then it shows their impact on retail development.

The model presented in Figure 4 identifies four major categories of environmental factors: demographic, economic, social and legal. Within each group, several factors can be enumerated affecting one or more of the function cost parameters. The multidimensionality of the consumer environment implies however, that often directions of impact could be in opposite direction; while one factor enhances one tendency another makes an opposite impact.

The impact of these factors can be identified on four household consumption cost parameters - cost of time, cost of inventory, costs of transportation and household efficiency.

Change in the value of time.

Sociologists and demographers have pointed to several demographic

changes taking place in American society which have large implications for increasing the value of time to many households. Among them growth of single person households, declining birth rate and increased female participation in the labor force. Single person households, whose heads must work outside his/her home will value their time more than those which include several members. Decline in birth rates relieves many women from housework and allows them to join the labor force. The result is an increase in women's participation in the country's labor force. This tends to increase the opportunity cost of their time. Such women will be, therefore, less motivated to work at home and will tend to reduce their inputs in in-home production activities. (Assael 1981).

Changes in life styles. The growth of the women's movement which has been a major trend in the American society has changed attitudes of many toward household production activities. The housewife's work has been described by many as undignified, drudgery, and not self-fulfilling as opposed to outside work (Komisar 1972). The effect of such attitudinal changes has been an increase in the opportunity cost of in-home production for many households. Households that attach low value to a housewife's work as compared to outside work will therefore tend to minimize the former in order to increase the latter.

Another important cultural trend has been the increased emphasis on leisure and hedonistic philosophy (Mason and Mayer 1981). An increased interest in leisure activities motivates household members to value their free (non-work) time more. Consumers will then prefer to use their free time on leisure and entertainment activities rather than on various in-home consumption activities which do not involve direct enjoyment.

Economic Changes. Among most recent economic changes, researchers count rise in personal income and per capita on one hand and in unemployment on the other hand, and more recently, inflation and high interest rates. (Berry 1980).

A constant rise in the level of personal income per capita in many households reflects the increased returns on education, entry of women into the labor force, and arrival of smaller families. The increased level of affluence tends to increase the opportunity cost in terms of foregone earnings of in-home activities for many households. This in turn, increases their tendency to reduce time inputs in the consumption process. The impact of unemployment is not clear. On one hand, unemployed heads of households have some free time and lower opportunity cost and may be able to devote it to consumption activities; on the other hand, such situations may induce non-working housewives to look for external employment. This in turn may reduce further the amount of time each household can devote to consumption activities. The most recent economic phenomenon which affects consumers is inflation and high interest rates. High interest rates affect consumers costs of consumption infrastructure and thus their costs of inventory. As a result, consumers may prefer to maintain lower inventories. This in turn may reduce their interest in food warehouses where large scale packages are sold.

Cost of household inventory maintenance

The demographic and economic changes have affected also costs of inventory maintenance within the household. At the same time, other factors increased its attractiveness.

Thus, the tendency towards smaller households creates a corresponding tendency to reduce residential space. This reduces correspondingly storage

space available to consumers and raises inventory costs. Households who have less storage space will buy smaller quantities and may therefore rely on more frequent shopping. Smaller families need also fewer items such as food, household goods, cleaning material, etc. This will further reduce the tendency of these families to purchase large packages (Shoemaker 1981).

High interest rates raise the cost of storage as well as they increase the cost of capital invested in storing goods. Inflation, however, allows the consumer to benefit from capital gains on his investment in stored goods. The net effect, on inventory costs, depends therefore on the relationship between rate of inflation and rate of change in interest rates.

Transportation costs

Transportation costs are directly linked to costs of gasoline. The consistent increase in these costs for the American consumer has substantially raised costs of shopping mileage and generated a demand to reduce these costs by shortening consumer shopping trips.

Higher interest rates have also increased costs of shopping trips by raising the cost of the fixed capital invested in consumer cars. While most families who purchase cars may not do it exclusively for shopping trips, shopping requirements may affect consumer decisions as to size and type of automobiles to be purchased. With higher interest rates, consumer may view the investment required in larger cars needed for transporting goods as excessive.

Demographic trends towards smaller families may also increase average costs of transportation. Average costs of transportation can be calculated by dividing all transportation costs per number of dollars of products

purchased. Therefore, in large families where size of each purchase may be large, average transportation costs per dollar purchase will be lower than in smaller families with smaller dollar purchases.

Consumption efficiency

Consumption efficiency reflects consumer's level of sophistication as shoppers and consumers. Two factors, which may affect consumer efficiency is changes in consumers' level of education, and government regulation which facilitates shopping such as unit pricing, nutritional labelling, energy labelling, etc.

Consumer education can be both general and consumption specific. The former will improve consumer efficiency in processing shopping and product/brand information and may facilitate evaluating sales deals, performance criteria, use of consumer information sources, etc. Consumption specific education improves consumers' ability to prepare meals, mend clothing, fix household fixtures, etc.

General consumer education is largely related to his level of income. As a result, one may find that high income consumers will be show high shopping efficiency. Consumption specific education will reflect life style of consumers and may be therefore unrelated to one's income.

CHANGES IN RETAILING

A review of recent changes in the retailing scene points out to the effects that some of these changes in consumption cost parameters have had on the retailing scene.

Increased cost of time to consumers

The increased cost of time for consumers has generated a substantial amount of retailing changes. The success of the fast food restaurants

can be explained by their ability to reduce for consumers the tasks associated with preparation and disposal of food. In Western Europe, large department stores have successfully integrated low price restaurant operation in their premises. This way, they offered their shoppers a less costly shopping experience whereby shoppers did not have to go to outside restaurants losing time and paying higher prices.

Households' desire to reduce time spent on shopping and purchasing has spurred a substantial number of other retailing changes. Thus, the practice of self-service has spread to new industries beyond food and allowed consumers to shop faster. The major attraction of self-service is that consumers can determine their own pace of shopping and are not dependent on the speed with which store clerks serve the customers. Self-service has become an accepted retailing pattern in stores selling toys, hardware, stereo equipment, paints and home improvement materials, sporting goods, cameras, etc. (Mason and Mayer 1981).

To increase shoppers' convenience in product selection and transportation, larger and more diversified superstores have been developed. For example, super-drugstores, such as those operated by the Skaggs Companies and Long's, offer a broad assortment of health and beauty aids, cosmetics, housewares, jewelry, sporting goods and related merchandise. Hyperstores focus on serving the consumer needs for all types of routine purchases or convenience items. The large size of these stores with their variety of products allows consumers to save time in purchasing by concentrating their buying in one retail outlet.

For consumers interested in reducing their purchasing efforts even more, door-to-door selling and mail-order/catalog selling offer substantial

advantages. Both types of selling allow the consumer to purchase products without leaving his residence. Instead of traveling to the stores and completing his purchases there, the consumer can conclude his transaction with the visiting salesman or directly with the supplier through the mail. The recent increased appeal of mail-order shopping is reflected in the increase in mail-order sales to more than \$14.4 billion in 1974 and in the establishment of mail-order departments by many of the nation's largest corporations and department stores. Door-to-door selling has also enjoyed an increase in the seventies (Hirschman and Rosenberg 1980).

To reduce maintenance costs and costs for capital outlays many households opt for renting or leasing instead of buying products. Today, such diverse products as cars, formal wear, furniture, and residential places are often rented rather than bought. Renting/leasing allows households to transfer various maintenance efforts to the leasing or renting entity.

To reduce their transportation costs, consumers again favor neighborhood shops while shopping centers located far away from residential areas attract fewer shoppers (Barry 1980). More consumers show also increased preference for smaller packages rather than for larger ones. 7-11 stores have successfully attached this market segment with small, neighborhood stores.

SUMMARY

Distributive change has been the center of interest for a large number of marketing works. The result has been the development of several models of distributive change. None of the models developed so far, has however attempted to integrate knowhow about consumer behavior and explain change in retailing on that basis.

In this paper, the household economics framework, has been utilized for that purpose. The model views the household as a production unit where consumption functions are carried out. Costs of performing some of these functions can be reduced by shifting them to retailers or by designing modes of shopping which can reduce some of these activities.

The model presented has a distinct advantage that it yields itself to quantitative measure. It can serve as a basis for drawing conclusions as to the characteristics of consumers who will patronize novel retail services associated with shopping in each retailing institution.

The model can also serve for developing production as to the novel types of retailing institutions to be developed in the future. Analysis of trends in consumer characteristics and behavior, can yield conclusions as to projected changes in consumer consumption cost function through analysis of changes in its parameters such as value of time, consumption efficiency, etc. This in turn can provide basis for predicting what type of retailing innovations responding to such changes can succeed.

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FIGURE 1

THEORIES OF RETAILING CHANGE

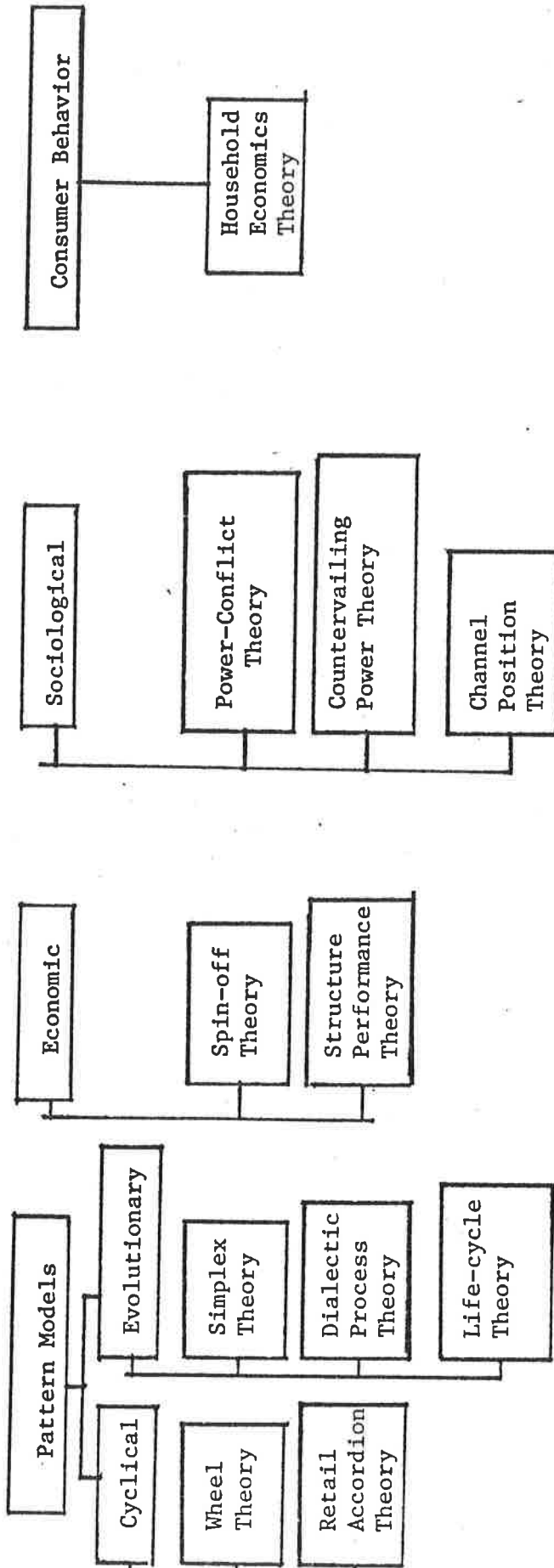


FIGURE 2

STAGES OF THE CONSUMPTION PROCESS

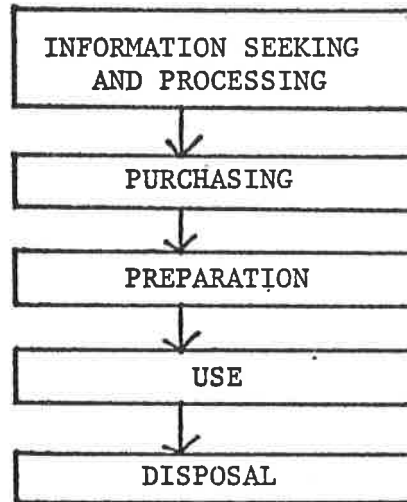


FIGURE 3

THE DEMAND FUNCTION FOR CONSUMPTION SERVICES

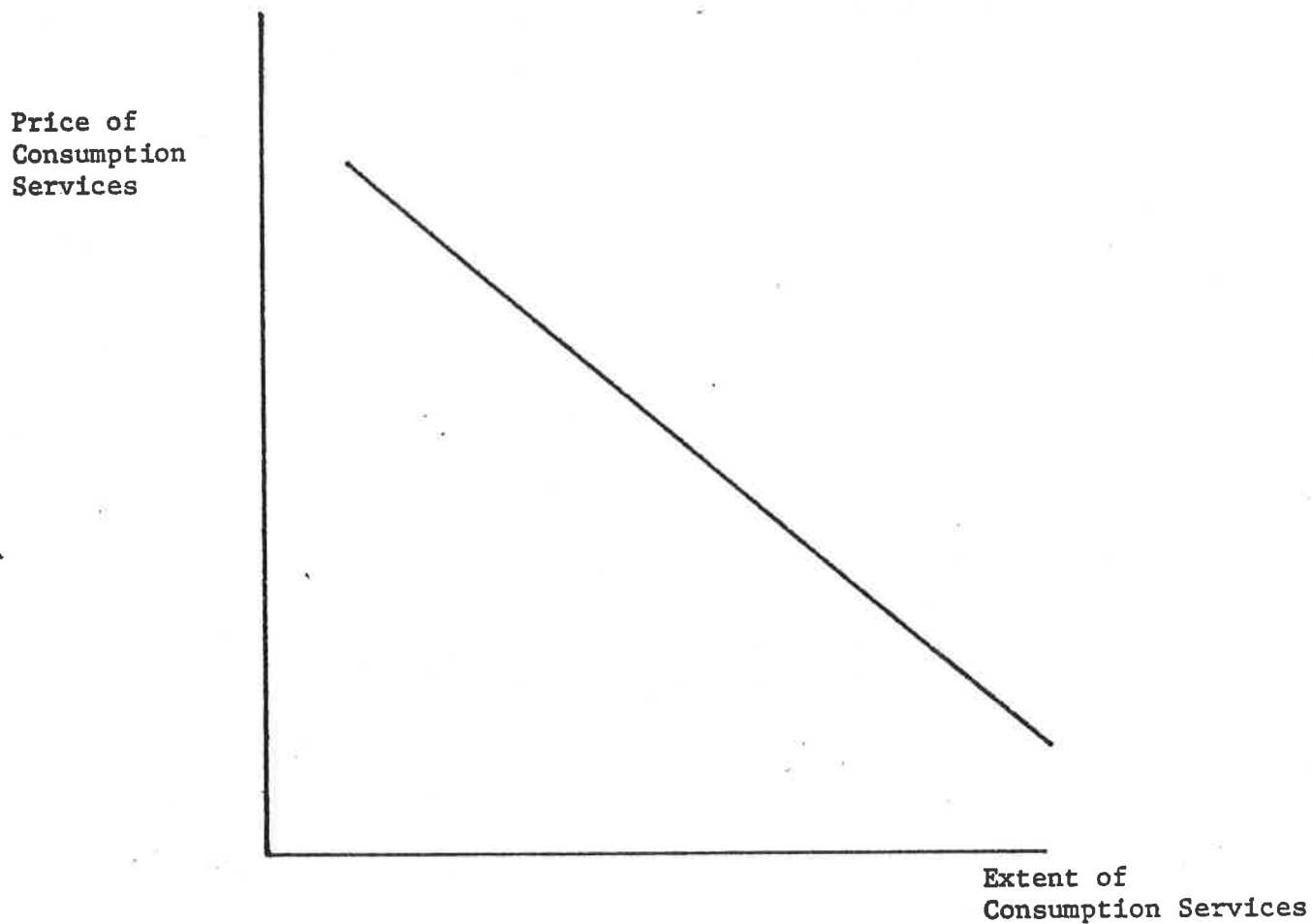
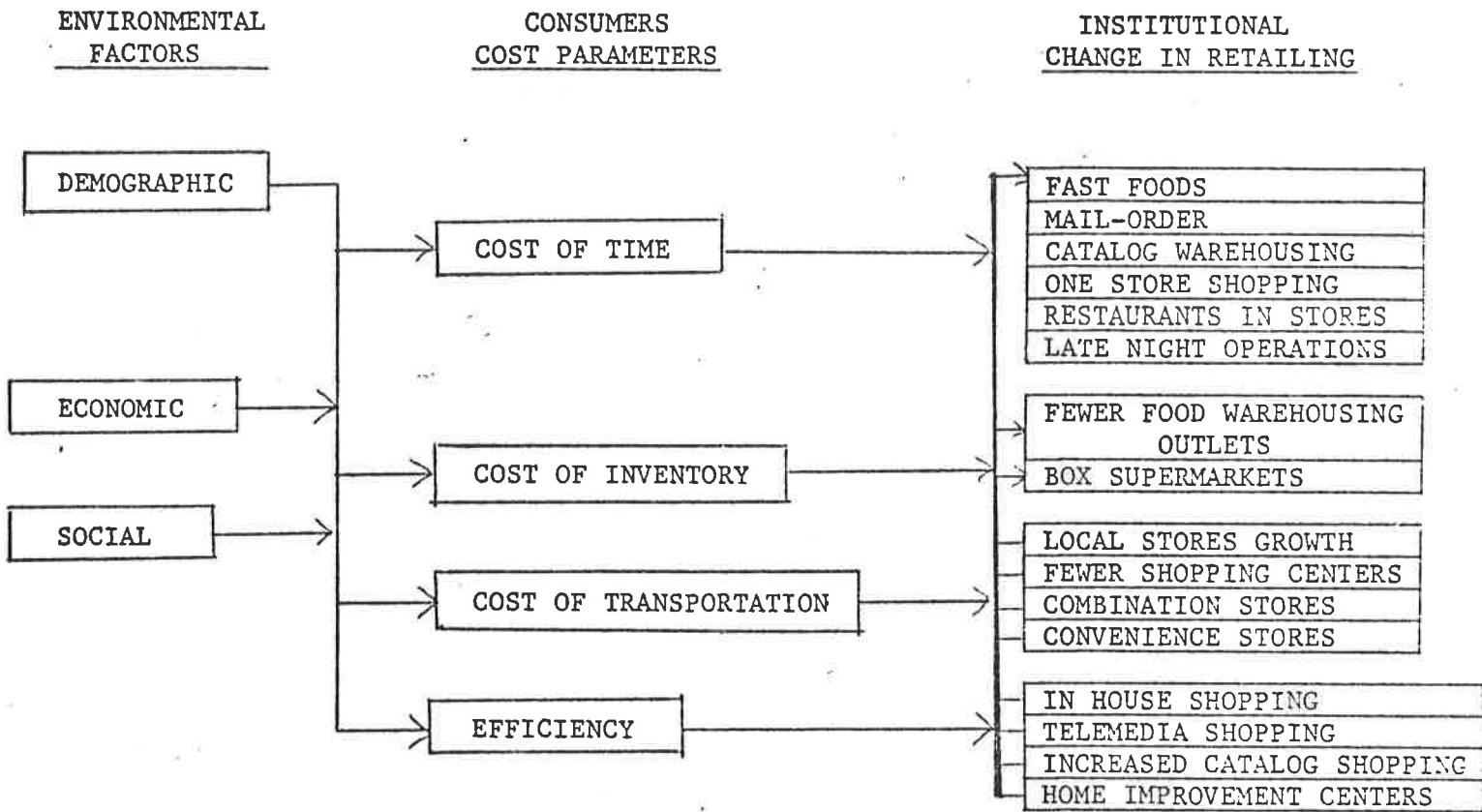


FIGURE 4
 EFFECTS OF ENVIRONMENTAL FACTORS ON
 CONSUMPTION COST PARAMETERS AND RETAILING CHANGE



Market place communication

~~Communication~~
describe thesis is a nutshell
reject transaction lines tend to substitute
psychological variables

in terms of
clearance for
competitive behavior

P1-3 looks directly
Ready description
What paper is about
shortly to
- simplistic
P10 starts the story
P15
P18

**A THEORY AND VERITIES OF
MARKET PLACE BEHAVIOUR**

explain variables of
explain behavior
S. Glaser
obsession of market behavior

S. Glaser
University of New South Wales

Michael

M.I. Halliday
New South Wales Institute of Technology

Recommendation:

- ① Focus on story as vehicle of communication presented to
- ② describe more fully the market process
- ③ put in a discussion section how important of social interaction
 (e.g. highlighted & interaction explain with configuration
 conclude with effective series of what has been learned)

Seventh Macromarketing Seminar
University of Colorado
August 1982

A THEORY AND VERITIES OF MARKET PLACE BEHAVIOUR

While we are continually reminded of the inseparability of market exchanges from their social context, our attempts to explore the properties of such systems of exchanges seem to cavil at this very fact. Socrates quite clearly argued that the State rose from the diverse wants of man, the network of exchanges directed at satisfying these wants identifying the boundaries of the state. Thus:

"A State, I said, arises as I conceive, out of the needs of mankind; no one is self-sufficing, but all of us have many wants. Can any other origin of a State be imagined? Then, as we have many wants, and many persons are needed to supply them, one takes a helper for one purpose and another for another; And they exchange with one another, and one gives, and another receives, under the idea that the exchange will be for their good."

(Plato, trans., p.53)

Socrates went on to argue that the forces bringing people to be partners to an exchange stemmed from man's desire to specialise in those areas of work which suit his dispositions and abilities. Hence man is driven to exchange because ".....the husbandman will not make his own plough or mattock, or other implements of agriculture, if they are to be good for anything. Neither will the builder make his tools - and he too needs many; and in like manner the weaver and shoemaker."
(ibid, p.54)

That the motive power underlying exchange is not simply attributable to the specialization of labour and "functional" need, has of course,

been emphasised by numerous scholars. Adam Smith, Veblen, Marx and, more recently, David Riesman spring most readily to mind. As Polyani (1957, p.46) reminds us:

"The most outstanding discovery of recent historical and anthropological research is that man's economy, as a rule, is submerged in his social relationships."

Within the context of contemporary marketing such concerns are best evidenced in studies directed at describing the role of cultural and group factors on consumer behaviour. But these studies have had limited success in explaining the dynamic of unit-unit (person-person) interactions and the product's role *as part of this set of relationships*. Secondly, the findings which arise from the study of the sociology of consumption imply that social behaviour is law-governed and can be subject to the same generalizations and predictions as, say, astronomy or embryology.¹ However, people are purposeful, they can adapt to circumstances and fashion the environment to suit their aim. Man's purposefulness is reflected in his distinctively human qualities (not quantities) and these qualities, in turn, interact with those sets of rules called culture, our native language, the physical setting for behaviour and so on.

¹ For example: "Black consumers *are* loyal consumers; that is they *tend* to establish *definite* brand preferences" (Schiffman and Kanuk, 1978, p.374 - emphases added).

Riesman's (1950) conception of the "taste exchange process" neatly describes the product's stand in a dynamic network of social interaction. He implies, quite rightly, that products and people are ordered in a set or system of relationships. Consumer goods, movies, our personal history, attitudes to events and personalities serve as means by which people explore and identify their psychological similarity. Hence "small talk" is often directed at ascertaining whether there is any point in pursuing a relationship to a more intimate level. If both individuals cannot reach agreement (or, in Newcomb's term, consensual validation) on relatively trivial matters the relationship will terminate. This is why a friend in common provides a cementing force to a novel personal encounter. It establishes, by a process of *psychological* logic, that the probability of satisfactory further interaction is enhanced, i.e., if A and B both know and like C, then it is likely that A and B will be attracted because of an assumed common pool of interests and affects. While these referents may be passive in a physical sense, the mutuality of their social and psychological meanings are open to inspection and exploration. The valence (power) of these referents is not given by either individual's perception of the referent but the configuration, with its tugging and straining, formed by the three elements of a system of interpersonal relationships, i.e., the two human participants, A and B, and the referent, X. These constitute the most rudimentary set of elements for conceptualising a marketing system. As Emery (1962) has shown this system is useful for describing the statics and elucidating the dynamics of marketing processes. However, in this paper we will reach back to the progenitor of Emery's approach, Fritz Heider, to show the relevance of Heider's "naive" psychology for comprehending the structure and function of market place behaviour.

The Theoretical Framework

Heider (1946, 1958) worked within the European tradition of Gestalt psychology introduced into the United States by Kurt Lewin. In Heider's analysis of social configurations or social fields he introduced the P-O-X system of notation. This notation is remarkable for its elegant simplicity and heuristic power.

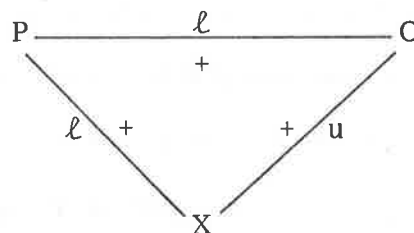
A social field contains at least one person whose life space is being considered (P), another person (O) and some impersonal entity (X) such as a product, event, etc. These three elements form a system because their relationship is one of interdependence. A change in the relationship between any two parts, such as that existing between P and O will also modify the relationship of P to X and/or O to X in order to "balance" the whole configuration. As both P and O have choice, that is they are purposeful systems (Ackoff and Emery, 1972), what are the conditions which bring P and O together?

To be sure physical proximity is a potent factor, although its impact is equivocal. For example, neither prisons nor the nuclear family always function harmoniously despite the fact that participants inhabit the same behaviour setting. While the physical barrier of a wall restrains the prisoner to a particular location, the power of a family can be equally taming and ultimately as destructive. To a large extent this discord reflects the degree to which people are "locked into" a particular social system. We will return to this later.

As Heider (1958) points out some of the other factors inducing inter-
personal attraction are ownership (of X), the degree to which P and O
 hold beliefs and attitudes in common (as we have already discussed),
 the degree to which P can cause O to be the recipient of a reward
 and, in some cases, the comfort of familiarity which is inherent in the
 folk wisdom "the devil you know

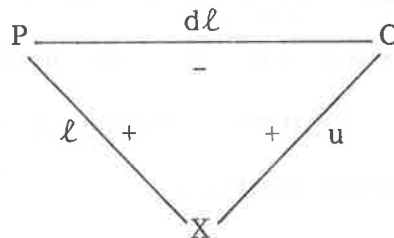
To illustrate the power of Heider's notation we can consider two
 people, P and O, who are in the process of undertaking a market
 exchange with respect to a product, X. In our first case we assume
 P and O know and like each other (an 'l' relation) and O is a producer
 and wholesaler of product X (a 'u' relation). If P wishes to purchase X
 how will he or she evaluate the product? In order for the system of
 relationships which result to be balanced or harmonious there will be a
 strong tendency for a positive sentiment towards X to be induced.
 Figure 1 shows the relationship diagrammatically.

Figure 1



Now consider the situation where the potential purchaser does not like
 (d) O but feels the product has market potential - that is, he displays
 a positive sentiment towards the product. The system of relationships
 is shown in Figure 2.

Figure 2



The system is, according to Heider, unbalanced. Harmony can be attained by either modifying the sentiment relations or the u (ownership or "belongingness") relation. For example, P can modify his feelings about O ("he is not so bad after all") thus making the $P-O$ relation positive. Alternatively, P can start to question or denigrate the worth of the product. The $P-X$ relation then becomes negative or P comes to dislike the product. Both of these changes to the links between the elements of our triadic system bring the configuration into balance.

However, we make the important assumption that the teleology of the system is balance or harmony. Elements of the system are, in general, free to enter and leave the relationship and/or attempt to rearrange the system, i.e., change the positional value of the elements (e.g., by absorbing the element, as in a takeover or merger) and/or the nature of their relationship. If the latter is the case and given that the system portrayed in Figure 2 confronts P he can either express his dislike of the arrangement as anger or, alternatively, live with the imbalance and convert the $P-X$ relationship to ownership, i.e., $P-l-X$ is replaced with $P-u-X$. In either case the probable outcome is

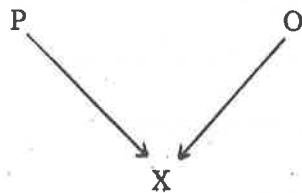
conflict. However it is only likely to reach this state *providing* P is willing to enter into a relationship with someone he does not like. We do not require the insight of Freud to appreciate that in the common affairs of man this is most unlikely. However, where, for either contractual or social reasons, P is "locked into" the relationship then there is a tendency for conflict to occur. So we are led to the compelling conclusions that where exchange is at an interpersonal level it will reflect other than economic considerations and in the normal course of events is *unlikely* to be accompanied by conflict. Levine's (1979, p.285) stricture that "the market economy develops consuming and producing structures corresponding to modes of life which articulate and sustain individual identity of the composing personalities" must be endorsed.

Despite the fact that psychological theory leads to a view of (horizontal) market exchange based on co-operation the paradigm of conflict seems to characterise the studies of vertical and horizontal market exchanges. For example, Rosenberg and Stern (1970, p.40) felt that conflict was "pervasive and inherent" in a channel of distribution. This assumption dominates the plethora of studies aimed at demonstrating the role of power and conflict in distribution channels, as if the existence of these phenomena was a *sine qua non* of channel functioning even though Mallen (1977, p.294) observes that "channel members have more harmonious and common interests than conflicting ones". There is, however, theoretical justification for the Hunt and Nevin (1974) type studies, which examine the asymmetrical dependence

which may be thought to characterise participant relationships in a franchise operation.

Heider's notation is also useful for conceptualising other sets of relationships. We move to consider asymmetrical relationships as well as the symmetrical systems discussed by Heider.

Figure 3



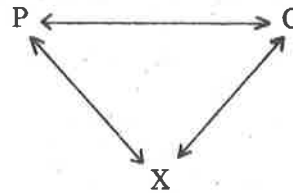
Competition



Commodity fetishism or
conspicuous consumption



Master-servant
(power)



Co-operation

The techniques of path analysis are obviously useful for estimating the pattern and strength of the relationships. Apart from commodity fetishism the figures above are self-explanatory. This picture is derived from Marx's (1867) observation that commodities actually seem to rule producers, rather than the reverse.

A market can be thought of as a network of interlocking P-O-X systems. Unfortunately Heider's method of examining the "balance" of triadic relationships is unwieldy when confronted with an extended field of interpenetrating P-O-X systems. Nevertheless some insights into the behaviour of such a gross system have been supplied by Gardner and Ashby (1970) and May (1972). They have demonstrated that in large, randomly connected systems the following relationships determine their stability.

$$s \sqrt{nc} \begin{matrix} > \\ < \end{matrix} \begin{matrix} \text{unstable} \\ \text{stable} \end{matrix} \quad 1$$

where s = average strength of interaction between the elements of the system, n = number of elements, and c = connectance, or the probability of a pair of elements interacting.

Computer simulations revealed several interesting properties of the above equation. In the first place the transition from stability to instability was very rapid. There was no smooth growth and decay of the sort associated with traditional studies of adoption and diffusion. The change was more akin to the snap of a piece of stretched elastic.

The second pertinent finding indicated that system stability depended upon trading off connectance against strength of interaction. That is, conditions of either high c and low s or low c and high s led to stability, while high c and s led to instability. In other words, if

stability is an objective, the choice is between a small system which is richly connected or a large system which is poorly connected. Indeed May's (1972) computations indicated that organizing a large, richly connected and unstable system into separate niches or segments dramatically increased the system's probability of stability.

While these analyses are confined to randomly connected systems they are useful in that they describe some of the structural moves which bring entropic systems into a stable state. In addition the suggestion that systems can be described by fundamental parameters is obviously useful (Glaser and Halliday, 1980).

The Study

The theoretical framework put forward suggests a number of broad hypotheses. The most prominent of these is that market relationships are more likely to be based on the paradigm of co-operation rather than conflict, on feelings of friendship rather than enmity.

The second general hypothesis is that a large system of market relationships is more likely to be diffuse or poorly connected rather than each element of the system being strongly related to all or many other elements.

In order to test these hypotheses the trading, communication and bonds of personal relationships were examined in the wholesale fruit and vegetable market supplying the Sydney, Australia, Metropolitan Area.

The trading is organized to take place within three large sheds, each shed being within close walking distance of the other. Within each shed are slightly over fifty wholesalers who offer a variety of different products. As none of the sheds specialises in any particular range of products, there are a number of traders within each shed selling the same range of fruit and vegetables.

In January 1980 a questionnaire was administered to all traders within the three sheds. The data were analysed via the Organizational Networks Analysis and Planning System (ONAPS) (Galloway and Mappin, 1981), in order to determine the patterns of relationships existing within the market. The other primary analytic tool was the clustering techniques suggested by Kamen (1970) and Emery (1981).

Results

The rationale for the geographic design of the market place was to encourage behaviour to conform to the economic model of perfect competition. It requires no reiteration that the functioning of such a market depends upon participants being "informed" (Scitovsky, 1952). This would indicate a fairly high degree of communication between traders in the market place and, presumably, frequent and varied communication between wholesalers and retailers as the latter attempt to procure their produce on the best terms and conditions. Recall however that the stability equation suggests that this picture would not emerge, because of the potential instability of such a large richly connected system. Certainly it would be anticipated that the within

shed communication pattern should at least be richly connected even if the between shed links are sparse, because of the obvious physical barriers.

Figure 4 shows the communication links within and between the sheds. The central plot shows the communication between the three sheds, each shed being represented by the semi-circular segment. Communication between the traders within each shed is shown in the three peripheral plots. The most remarkable feature of these diagrams is the low level of connectance or communication, i.e., c in the stability equation. Coincidentally, the strength of the interaction as measured by the frequency and importance of communication (s) is also low.

Figure 5 shows the same network but this time the network or set of communication links is classified by the commodity group in which each trader specialises. Clearly on the most casual visual inspection most links are *not* related to the commodities in which each trader specialises. Shed membership accounts for the dispersion of links much better than commodity groups. Controlling for commodity group accounts for very little of the pattern. The propinquity, in a geographical and friendship sense, appears to be a more powerful determinant of communication than the need to monitor the trading behaviour of competitors in the market.

Within the systems theoretic framework the results endorse the implications from the Gardner, Ashby, May (1970, 1972) equation, i.e., the markets represent a stable system where both connectance and

MARKETS

NON-DIRECTIONAL LINKS

Figure 4

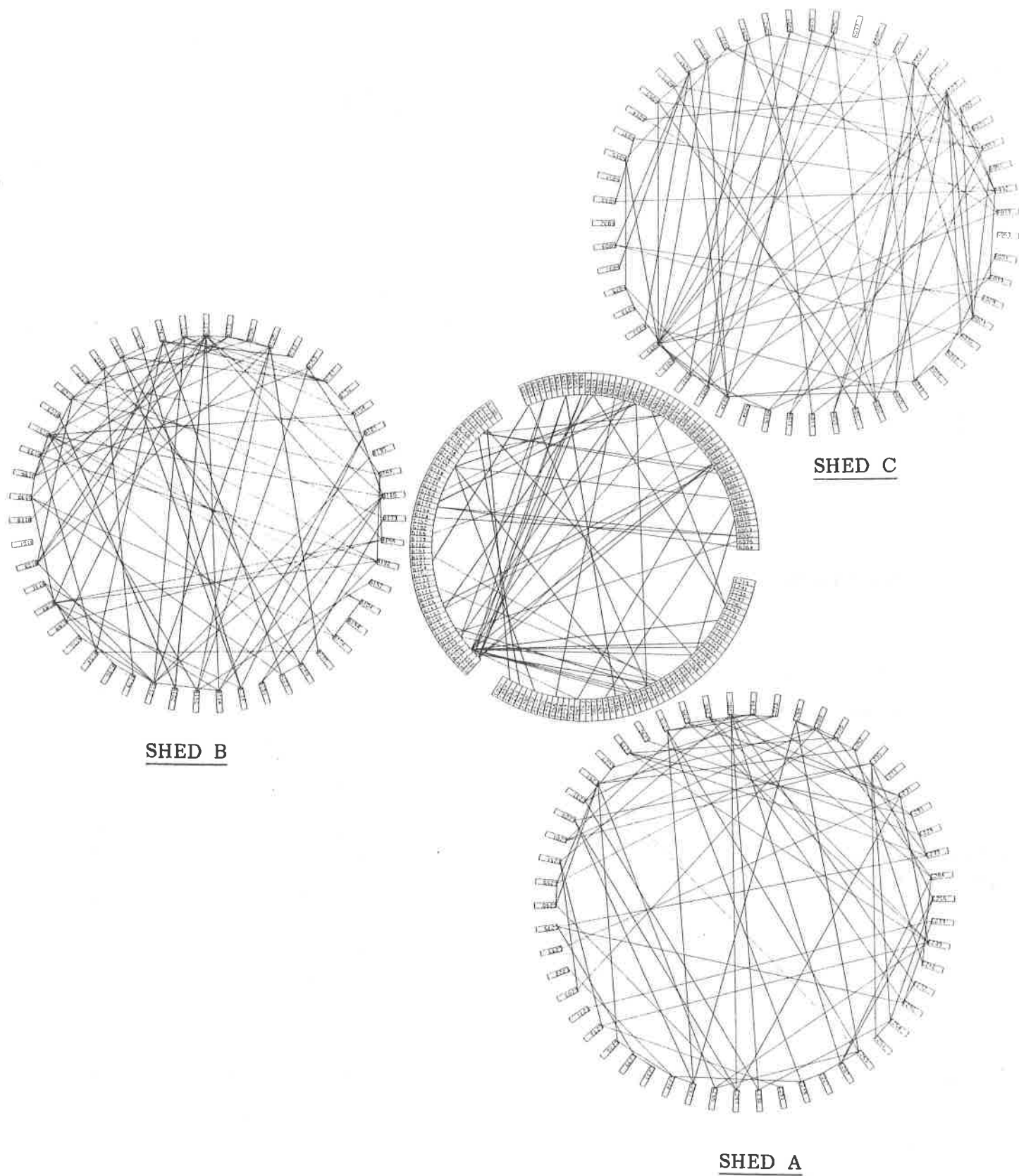
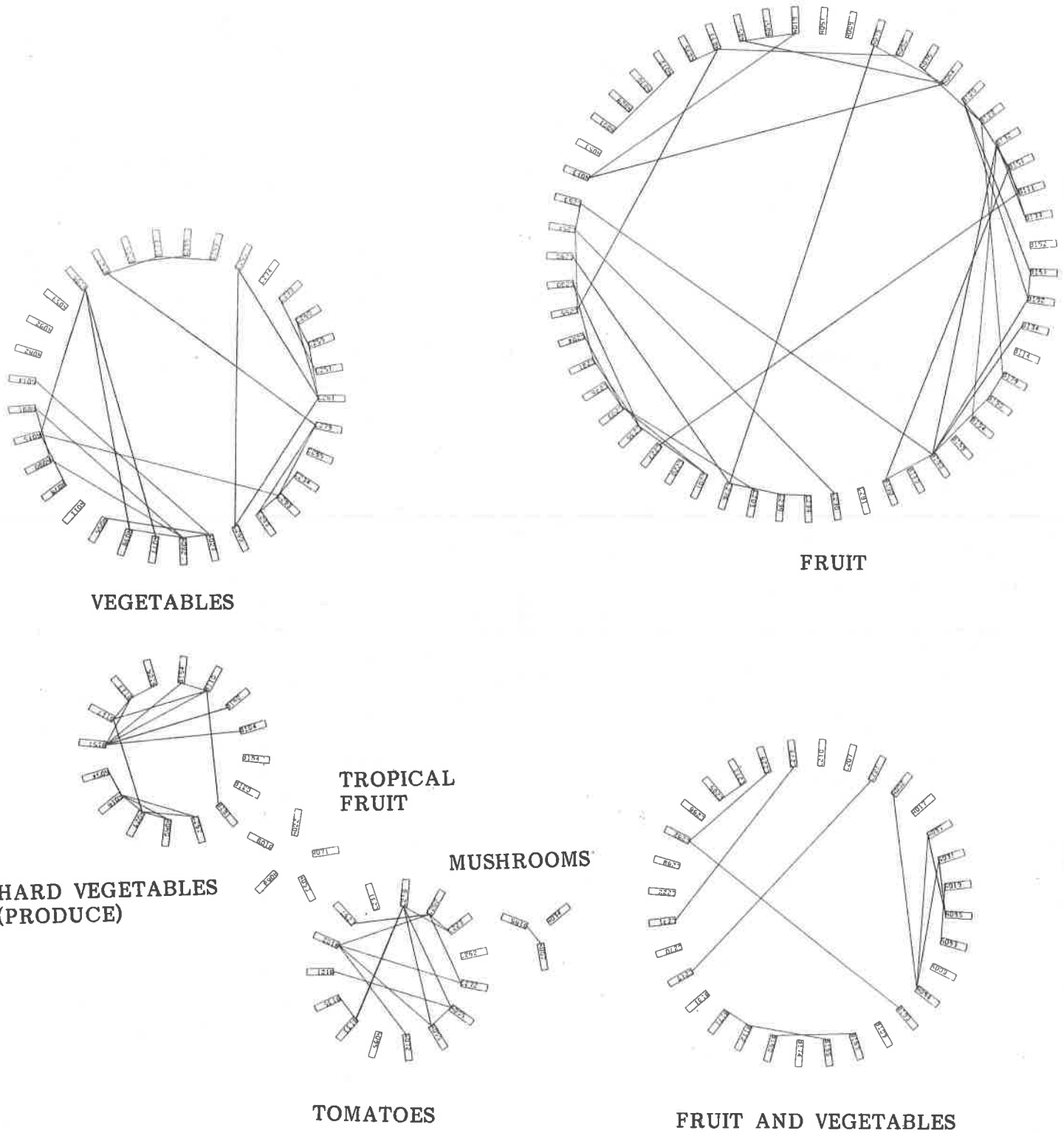


Figure 5

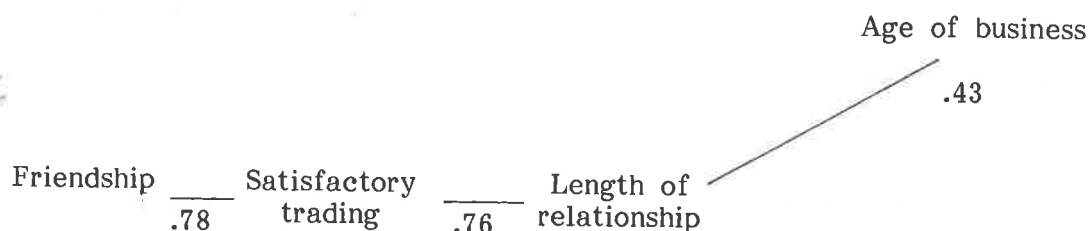


strength of interaction between the components is low. This leads to the speculation that if the conditions of the market were otherwise (i.e., high connectance and strength of interaction) the market would be dynamically unstable and cease to function adequately.

The cluster analysis of the questionnaire data was undertaken to ascertain the ways in which the data set "hung together". As the questionnaire included measures of conflict, co-operation, dependence and power, we were concerned to assess whether the clustering of the variables indicated predominant modes of co-operation or conflict.

The first cluster is shown in Figure 6. It concerns the wholesaler-retailer relationship.

Figure 6



The cluster shows an unexceptional correlation which is simply a function of time, i.e., age of business and length of relationship. However, it does reinforce the parallel that exists between the human and economic dimensions of market place exchanges. Not only do we find that trading relationships are enduring but also that those who trade together share sentiments of friendship and presumably, trust and

mutual obligation. We would also expect that these feelings transcend the purely commercial aspects of their relationships.

Figures 7 and 8 summarise two of the more important clusters emerging from the wholesaler data.

Figure 7

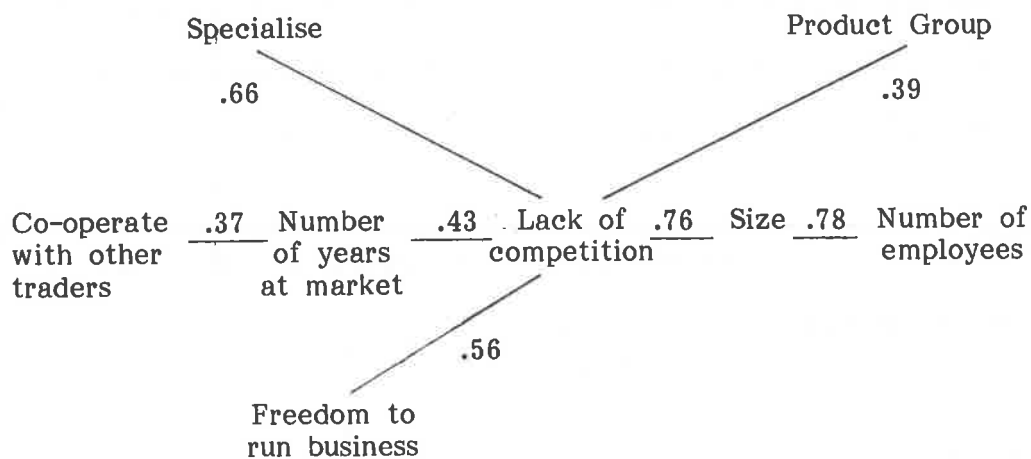
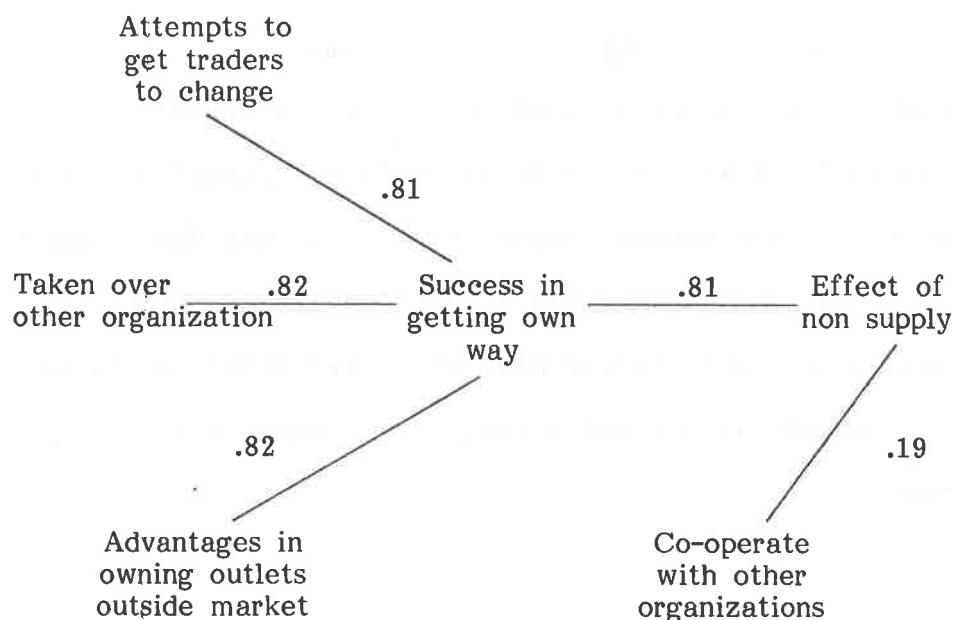


Figure 7 stresses the role of size and specialization in affecting the extent of competition that is faced by a wholesaler. The degree to which wholesalers can specialize in a particular product group and their capacity to grow in size directly impacts on their ability to conduct their business as they wish. However, it is critical to recognize that despite their potential for interfering with the functions of other wholesalers, by the exercise of the powers that are latent in their oligopoly position, the dominant mode of business is co-operation.

Figure 8



The final causal path which is summarized in Figure 8 indicates growth by takeovers and vertical integration. While overall there are very few attempts to get traders to change the way they do business, when it does occur these moves appear to be successful. The main thrust of these attempts to modify market behaviour seems to be directed at making a successful takeover bid for another organization. While dependence on suppliers is also related to this cluster of variables it is clear that the most common mode of dealing with this dependence is, once again, co-operation not conflict.

*Expand
discussion*

Conclusions

In this paper we have questioned traditional notions of market place behaviour based on competitive, adversary relationships largely because such a picture commits psychological nonsense. The view that emerges is totally in accord with Arndt's (1979) concept of domesticated markets and the wise reflection of Bent Stidsen (1979) that what gets organized in markets are not just exchanges but human, co-operative, relationships.

ACKNOWLEDGEMENTS

Roger Layton suggested the agricultural market as a suitable vehicle for testing the theoretical framework.

The benefit of discussions with Fred Emery runs through the warp and weft of this paper.

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Consumer Satisfaction with the
Spatial Marketing System

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Consumer Satisfaction with the
Spatial Marketing System

ABSTRACT

This paper sets forth a definition of spatial marketing and develops a mathematical model of the spatial marketing system in metropolitan areas. The concept of consumer satisfaction is developed and related to the model. It is shown that the more satisfied are consumers, the more they spend on the goods and services offered by the system. An empirical test is performed for grocery stores with 1977 data from 168 SMSAs.

Introduction

How satisfied are consumers with the American marketing system? What affects their satisfaction level? These are important questions for at least two reasons. First, the system itself exists for the benefit of consumers. When large numbers of them are dissatisfied, the system has failed. (A similar comment may be made for selected subsets of the marketing system.) Second, dissatisfaction has historically implied pressures for modification or regulation of the system (Hollander 1972). An understanding of satisfaction's causative factors can assist governmental officials to adjust the system. At a micro-level, such an understanding can aid marketing managers to lessen or even to prevent dissatisfaction.

There are at least two possible approaches to analyzing consumer satisfaction, both are drawn from consumer behavioral analysis. The first addresses cognition and affect, neither of which are directly observable. Consumers are queried as to their satisfaction and to what factors affect it and conclusions are drawn from their responses. For a host of studies along these lines, see the annual Proceedings of the Consumer Satisfaction, Dissatisfaction and Complaining Behavior conference. The second approach focuses upon conation. Specifically, inferences about satisfaction are drawn on the basis of observed behavior. For this approach to be valid it is necessary that the inferences be predicated upon a solid model of consumer satisfaction determination. Without such a model the "inferences" can be projections by the researcher.

?)

The purpose of this paper is to investigate the determinants, but not the actual level, of consumer satisfaction with the spatial marketing system in United States metropolitan areas. Spatial marketing may be defined as encompassing those sectors of the economy for which the geographical location of the outlet is of utmost importance in determining the success (or failure) of the marketing effort. The conceptual reason that location is envisioned as such a dominant factor is "travel costs." Specifically, spatial marketing includes only those sectors in which the consumer must travel to and from the site in order to acquire the product and/or service which is offered there. The fact of travel imposes dollar, time and psychic "costs" upon the consumer. Dollar costs include, but are not restricted to, expenditures on gasoline, tolls, and parking. Time "cost" is the consumer's evaluation of the value of time spent in traveling to and from the outlet. Psychic "costs" capture the stress associated with driving, for example. By way of example, traffic congestion can impose psychic as well as time and dollar costs.

From the definition of spatial marketing it is apparent that virtually all non-mail order retailers are spatial marketers. Spatial marketing also includes many service industries, for example, dry cleaning establishments. By my calculations, approximately 58% of all personal consumption expenditures and 54% of disposable personal income go to spatial marketing activities. In addition to representing a large proportion of consumers' budgets, spatial marketing encompasses most of the final stage of the channel of distribution. Importantly, most spatial marketers have several direct competitors as well as many indirect competitors. Thus, "the invisible hand" provides economic incentives at the private level to satisfy consumer needs and wants. In contrast, many consumer expenditures outside the spatial marketing system occur in the absence of direct competition.

For example, household maintenance expenditures (electricity, etc.) comprise 15% of the average budget. Finally, it should be noted that the analysis in this paper is restricted to metropolitan areas in order to assure that competition is keen. In 1977 approximately 83% of the United States population lived in SMSAs.

Consumer Satisfaction

A modified economic concept is used to provide a constitutive definition of consumer satisfaction. A combined economic, geographic and marketing approach is then used to model the causative influences upon satisfaction.

The satisfaction experienced by a single consumer in a particular time period is defined as equivalent to the economic concept of consumer's surplus. Consumer surplus is itself defined as the difference between the total utility generated by an exchange transaction and the cost to the consumer of consummating that exchange. In common parlance this is "value for money." However, it is necessary to modify the economic approach in order to include (1) a recognition of the "travel costs" associated with shopping, (2) a recognition that the consumer derives utility from both the attributes of goods themselves and from the entire bundle of services associated with the sale, and (3) a recognition that it is exchange transactions within the spatial system (and not with a single marketing entity) which is of ultimate interest. The first point requires an economic geography approach to decision making. The second point brings a micromarketing foundation to the analysis. The third point requires that the aggregation process occur at two levels: a single consumer's satisfaction with the spatial system and then an aggregation to all consumers. Because consumers live at different locations, the degree of satisfaction attained will vary by consumer. Thus, this paper may be considered to be at the interface of three nominally disparate disciplines: economics, geography, and marketing.

It is the author's contention that there is a greater commonality between these academic areas than is commonly supposed. In combining the three avenues of research it will prove useful to begin with a single, archetypal consumer and then to aggregate to the macro level. I believe that this is generally a sound strategy for macromarketers to follow, since macro results are the outcome of micro actions.

Consumer's Surplus

In economic analysis the statement that a consumer seeks to maximize his satisfaction is regarded as tautological. The concept of a utility function is employed to embody the idea of consumer preferences for goods, attributes of goods (Ratchford 1975), or for services. It is possible to show that given a utility function, product prices, and the consumer's wealth level, the consumer has a demand curve for every product (Henderson and Quandt 1971, chapter 2). The area beneath the demand curve, from the price axis to the amount of the good purchased, is the monetary equivalent of the total utility derived from the product. That utility, minus the expenditures on the good, is equal to consumer's surplus (or net satisfaction). These concepts are captured in Figure 1 where the demand curve is:

$$q = a - bp \quad (1)$$

the amount purchased is q^* , the price paid is \hat{p} , consumer's surplus is $\frac{1}{2}(\frac{a}{b} - \hat{p})q^*$ and expenditures are $\hat{p}q^*$. Thus, consumer satisfaction is jointly determined by consumer preferences and by market prices. The more the consumer likes the product the greater is demand and the higher is satisfaction. Conversely, the higher are prices the lower is satisfaction. Determination of satisfaction requires an understanding of what affects preferences and of how prices are set.

 Figure 1 about here

For my purposes it is unnecessary to regard each product as having its own demand curve. It is more direct, and more simple, to regard q as the "composite commodity bundle" sold by a specific marketer (Hicks 1946) and \hat{p} as the price of that bundle. The result is that Eq.(1) represents the consumer's demand curve for the merchandise offering of some specific marketer and $\frac{1}{2}(\frac{a}{b} - \hat{p})q^*$ is the surplus derived from the bundle purchased. Extension of Eq.(1) explicitly to include spatial marketing requires the introduction of the travel costs incurred by the consumer.

Travel Costs

As argued above, travel costs include dollar, time, and psychic components as subjectively envisioned by the consumer. As a result of non-trivial transportation costs, the effective price "paid" by a consumer exceeds the actual price \hat{p} collected by the spatial marketer. The farther the consumer is from the outlet, the greater are travel costs perceived to be. As a result, the demand curve is a function of distance from the outlet:

$$\tilde{p} = p + tr \quad (2)$$

where t is perceived round-trip travel costs and r is the distance from home to outlet. Thus,

$$q = a - bp - btr = b(\frac{a}{b} - p - tr) \quad (3)$$

Eq.(3) is presented graphically in Figure 2. Use of a linear form in equation (3) simplifies the mathematics without distorting the results obtained (Ingene 1977). It can be seen in Figure 2 that the farther the consumer is from the store, the lower is the maximum price the consumer will pay (a/b) and the less will be purchased even at a zero price (a). Thus, the spatial demand curve (Eq.(3)) must be viewed as being defined over some finite time period, say one

year. It does not state that the farther a consumer is from the outlet the less will be purchased on any given shopping trip; rather, it states that greater distance implies fewer shopping trips during the year. It also shows that there is some distance (a/bt) beyond which the consumer will not travel. It is transparent that this maximal travel distance is influenced by the type of spatial marketer under consideration: convenience grocery stores versus department stores, for example. Perhaps less obvious is the notion that consumer characteristics, environmental conditions and competitive factors influence how far the consumer is willing to travel, how much will be purchased, and the willingness to pay.

 Figure 2 about here

Marketing and Other Factors

There are a host of factors which can impact upon a consumer's spatial demand curve for the composite commodity bundle sold by a spatial marketer. These factors fall into four broad categories: household socio-economic and demographic characteristics (Δ), household psychographic characteristics (Ψ), environmental conditions (E), and marketing mix actions (other than location) taken by the spatial marketer (M). Examples of factors in the Δ category include household size, age of the head of household, household income and automobile ownership. Some of the Ψ factors are propensity to comparison shop, deal proneness and self-confidence. Environmental factors include local taxes, degree of congestion on the roadways and blue laws. Finally, the marketing mix factors include price, product, promotion, image and atmospherics.

The consumer's spatial demand curve has three relevant parameters: a/b (the maximal demand price), b (the inverse of price sensitivity), and t (perceived transportation costs). Elements in each of the aforementioned categories can

influence any or all of the parameters. For example, an improvement in the level of service provided by the marketing entity will cause the consumer to be willing to pay more (a/b rises) and to be less sensitive to price (b falls). There is no reason to believe that t would be affected. If income (a Δ factor) were to rise, a/b would rise, b fall, and t would rise since the value of time is now greater (Muth 1969). Similar examples can be given for each of the factors under consideration. In general:

$$\frac{a}{b} = \frac{a}{b} (\Delta, \psi, E, M) \quad (4)$$

$$b = b (\Delta, \psi, E, M)$$

$$t = t (\Delta, \psi, E, M)$$

where it is understood that $\Delta, \psi, E,$ and M are vectors. Changes in elements of any of the categories will shift the spatial demand curve depicted in Figure 2 (unless the partial affect is zero). As a practical matter, this means that every consumer can be regarded as having a demand curve of the form Eq.(3). Different consumers will purchase different amounts of the same goods, of course, because Δ and ψ differ. Thus, $(a/b), b,$ and t differ. Further, location (distance to the outlet) differs so that r is not common to all consumers.

Consumer's Surplus

For a consumer located at a distance \tilde{r} from the spatial marketer, consumer's surplus is:

$$cs(\tilde{r}) = b \int_{p^*}^{\frac{a}{b} - t\tilde{r}} \left(\frac{a}{b} - p - t\tilde{r} \right) dp \quad (5)$$

Integrating yields:

$$= \frac{b}{2} \left[\frac{a}{b} - t\tilde{r} - p^* \right]^2 \quad (6)$$

where: p^* = the price paid, $\frac{a}{b} - t\tilde{r}$ = the maximal demand price. Consumer's surplus is lower the farther the consumer has to travel for two reasons. First, there are higher travel "costs," Second, the consumer purchases less. Of course, Δ , Ψ , E , and M affect the surplus.

The model of consumer purchase behavior in a spatial setting is now complete. It has incorporated concepts from economics, geography, and marketing to explain the level of consumer demand for the bundle of goods and services offered by any spatial marketer. Determination of the amount purchased and the true price paid ($p+tr$) is necessary before consumer satisfaction (either singly or collectively) can be determined. Such determination requires a knowledge of the nature and scope of competition in spatial markets, a topic to which I now turn.

Spatial Competition

A model of spatial competition should incorporate the decision making process of marketers with respect to price and other elements of the marketing mix. It should also explain the number of competitors in the market or, equivalently, the distance between competitors. The information thereby generated on p , M , and trade areas will enable us to assess explicitly the surplus achieved by a typical consumer and, by an aggregation process, the level of satisfaction achieved by consumers collectively.

The model starts with a definition of physical sales (Q) and dollar profits (G - mnemonic for the German "gewinn"):

$$Q = 2\pi\phi \int_0^r R(a-bp-btR) dR \quad (7)$$

$$G = (p-c)Q - F \quad (8)$$

where the term $2\pi \int_0^r R dR$ reflects a circular market with the outlet located at the center. Use of a more realistic road network would lead to isomorphic results (Bos 1965). The firm is assumed to have a target geographic market of radius r . The term ϕ reflects the density of demand; people per square mile. In the profit equation F is fixed costs and c is variable cost per unit; hence, $(p-c)$ is markup.

Both fixed and variable costs are determined by marketing efforts and some environmental conditions, amongst other factors. For example, a coupon placed in the newspaper affects F through the advertising charge and c through the redemption rate and coupon value. Another example is local building codes: they clearly impact upon F but not upon c . Symbolically,

$$\begin{aligned} c &= c(E, M) \\ F &= F(E, M) \end{aligned} \quad (9)$$

Of course, the environmental conditions which influence costs need not be the same as these which affect demand (e.g., building codes).

A spatial marketer will select its price and other marketing efforts to appeal to its target socio-economic, demographic, and psychographic markets. For a profit maximizer this requires:

$$\frac{\partial G}{\partial p} = 0 = \frac{\partial G}{\partial M}. \quad (10)$$

Given the formulation of the problem, there is an explicit solution for price and an implicit one for M . The optimal price (p^*) is:

$$p^* = \frac{1}{2} \left(\frac{a}{b} + c - \frac{2tr}{3} \right) \quad (11)$$

Price rises with variable costs and with consumer price tolerance (a/b) and

falls with increased market size (r) and increases in perceived transport costs (t). Thus, demographic, psychographic, environmental, and market mix factors do effect price. The implicit equation for M is given in Ingene and Lusch (1981, p.122). It is also shown there that sales maximizing spatial marketers behave in a fashion similar to profit maximizers (pp.159-61).

Dollar sales and profits of a spatial marketer are fourth-order equations in r . Because I have no empirical evidence on r itself, I now perform a "trick" which will enable me to eliminate r from the equations. The trick is legitimate both mathematically and conceptually. It is definitionally true that the number of stores per household (N/H) in a market is:

$$\frac{N}{H} = \frac{\pi R^2}{H\pi r^2} = \frac{1}{\phi\pi r^2} \quad (12)$$

where πR^2 is the area of the market (say an SMSA). It is also true that when competition exists, entry (or exit) occurs in the market until profit levels attain an acceptable but not attractive rate. Let the cutoff profit level be \bar{G} . Then $dG=0$ in equilibrium and this equation may be solved for the equilibrium trade area radius (\bar{r}). To perform these manipulations it is necessary that there exist more or less natural markets within which competition is keen but between which competition is minimal. SMSAs are such markets. They are discussed in the empirical section.

Consumer Satisfaction

Eq.(6) defined the surplus for a single consumer located at any arbitrary distance from a store. The outlet itself "generates" a total consumer's surplus for all its patrons of:

$$CS = 2\pi\phi \int_0^{\bar{r}} R \cdot cs(R) dR \quad (13)$$

In the market, an average household recognizes a level of satisfaction of:

$$\frac{N}{H} \cdot CS = \frac{CS}{H} = \left(\frac{b}{8}\right) \left[\left(\frac{a}{b} - c - \frac{2t\bar{r}}{3}\right)^2 + \left(\frac{\sqrt{2t\bar{r}}}{3}\right)^2 \right] \quad (14)$$

It is not empirically possible to verify the implications of Eq.(14) because there is no macro-data (of which I am aware) on consumer satisfaction. However, there is readily available data on average household expenditures ($p*Q/H$). It is easy to show that ($p*Q/H$) is given by the expression:

$$\frac{p*Q}{H} = \left(\frac{b}{4}\right) \left(\frac{a}{b} - c - \frac{2t\bar{r}}{3}\right) \left(\frac{a}{b} + c - \frac{2t\bar{r}}{3}\right) \quad (15)$$

It can be shown that the directional impact of each category of factors (Δ, Ψ, E, M) on consumer satisfaction is the same as its directional impact on per household expenditures. Thus, by regressing ($p*Q/H$) against the Δ, Ψ, E and M factors we also measure the directional impact of those factors upon consumer satisfaction. I now turn to the hypotheses which can be derived from Eqs. (14) and (15).

Hypotheses

I have argued that there are four categories of factors influencing consumer satisfaction with the spatial marketing system. Three of the categories - socioeconomic/demographic, psychographic, and environmental - are beyond the control of marketers, either singly or collectively. The fourth category, marketing mix actions, is under direct marketer control. Of course, from a systems perspective, it is the collective average rather than the solitary action of any specific spatial marketer which is of significance. From a

governmental perspective, consumer satisfaction may be enhanced by actions taken with respect to the marketing system, environmental or socio-economic and demographic factors. Whether psychographic attitudes are directly affectable is a moot point. Hirschman (1982) has argued that psychographics evolve, in part, from the actions of the marketing system. Because the empirical test to be presented is a cross-sectional study of SMSAs, independent variables are defined (and discussed) as averages within each SMSA.

Non-Marketing Factors

While there are innumerable socio-economic, demographic and environmental factors which influence consumer expenditure patterns and, by extension, consumer satisfaction, there are four which must be regarded as salient. These are, average household income, household size, household mobility, and traffic congestion. Their salience is created by (1) their intuitive appeal, (2) their data availability, and (3) their use in previous studies (Ingene and Lusch 1980, 1981). Except for congestion, the variables are defined on a per household basis because households are regarded as the relevant purchasing agents for the output of spatial marketers. The implicit dependent variable in the following discussion is per household expenditures. As argued in the preceding section, it is a proxy for consumer (or household!) satisfaction.

As income (Y) rises, households will purchase more goods. Additionally, they will purchase more "valuable" goods; for example, brand name goods will be substituted for generic products. In terms of the mathematical model, (a/b) rises and (b) falls. Average household size (POPH) should positively influence household expenditures on necessities for fairly obvious reasons. Mathematically, (a) and (b) both rise, the latter by a greater percentage. It should be noted

that while an increase in household size raises expenditures and (by extension) surplus, it is not obvious that per capita consumer's surplus also rises.

An increase in automobile ownership (T) clearly lowers perceived transportation costs and thereby enhances comparison shopping. This suggests that consumers are more apt to attain their ideal bundle of goods; thus, they will spend more and experience greater satisfaction. Operating in precisely the opposite direction is traffic congestion ($T\phi$). It is proxied as the number of automobiles per square mile.

A final "environmental" variable from the viewpoint of a spatial marketing subsystem is inter-industry competition. Since the empirical test reported is of grocery stores with payroll, it is appropriate to examine their competitors. For "at home food," only mom and pop (no payroll) grocers are significant competitors. The more of them there are, the lower should household expenditures be at regular grocery stores. However, satisfaction with grocers should rise since mom and pops provide both a source of competition and an outlet for consumer frustrations. As a measure of the importance of mom and pop stores, I use their number per household (NMPH).

There is no cross-sectional data on psychographic differences of which I am aware. Hence, there exists an excluded variable bias of unknown magnitude and direction.

Marketing Factors

Although there are myriad marketing factors which are believed to influence consumer expenditures and satisfaction, relatively few of them are empirically accessible at the macro level. Fortunately, the five which can be measured with strong proxy variables are key factors.

First, the average annual wage rate (W) in the spatial marketing sector is a good proxy for the quality of service provided. In higher wage areas there are more full-time, higher quality employees and fewer part-time ones (Takeuchi 1977; George 1966). High wages also imply lower employee turnover and higher morale. (Carey and Otto 1977). Since consumers value quality service, expenditures should be higher in such areas. (It should be noted that higher wages are correlated with higher incomes in a geographic area; thus, inclusion of both variables in the analysis is important).

Second, the number of employees per square foot of space (L/F) is a proxy for quantity of service and hours of operation. When hours are held constant an increase in L/F directly measures a greater provision of service. Otherwise, an area with a higher (L/F) may be providing greater time utility to consumers. (F is not measured on a "square footage hours" basis as would be required to eliminate this possibility). In either case, $(p*Q/H)$ rises.

Third, the square footage per capita (F/POP) in the market area is a proxy measure of total supply relative to demand for goods and services. As it rises, number of competitors held constant, there must be a greater assortment of goods available or a greater depth of goods. Since an increase in assortment implies that consumers more closely attain their ideal bundle of goods, they spend more

and their satisfaction rises. Correspondingly, greater depth lessens stockouts. Stockouts are known to cause lower expenditures (Schary and Christopher 1979).

Fourth, as store size (F/N) rises two conflicting phenomena occur. Larger stores obviously have a greater assortment of goods, this reinforces the discussion on (F/POP). However, holding (F/POP) fixed while (F/N) rises shows that there are fewer stores in the market. These stores must be further apart and comparison shopping must diminish. It is not theoretically clear which effect would dominate.

Fifth, stores tend to be newer in areas of recent growth. Newer stores are better located relative to the geographical distribution of the population (Lilien and Rao 1976). They also have atmospherics which are more appropriate to current attitudes of consumers (Hall, Knapp, and Winsten 1961). Since atmospherics is important in influencing consumer expenditure patterns (Markin, Lillis, and Narayana 1976), as is location, high growth areas should have greater consumer satisfaction. As a proxy for growth, I use the percentage change in number of stores from 1972 to 1977 (PCN). This is, of course, a lower bound on new stores.

Empirical Evaluation

This section sets forth the methodology used to test the hypotheses derived in the preceding section. The empirical results are also presented and discussed.

Line of Trade

The retail grocery trade was selected to test the hypotheses derived above.

Grocery stores are believed to be representative of convenience stores in the spatial marketing sector. They are also the largest retail sector in terms of sales, second largest in number of employees, and one of the principle purchasers of newspaper advertisements. It is easy to conclude that their performance has a major impact on consumer satisfaction with the spatial marketing system. Of equal importance is the attention which the federal government has directed at grocery store retailing. It has sponsored several studies of competition in the industry over the years (FTC 1966; Joint Economic Committee 1977).

Geographical Unit of Analysis

Standard Metropolitan Statistical Areas (SMSAs) were chosen as the most meaningful unit of analysis for several reasons. (1) SMSAs are defined to be viable economic units. (2) Promotion and advertising generally covers the SMSA but extends little beyond it. (3) Households rarely purchase groceries outside their home SMSA. (4) Spatial marketing competition is internal to SMSAs. (5) SMSA data is readily available from the Census of Retail Trade and other sources.

Measurement

Table 1 contains information on the data used to measure the ten independent variables, including source and predicted sign. In the regression equation each of the ten, plus the dependent variable, were converted to natural logarithms. Therefore, the beta coefficients in the regression equation may be interpreted as partial elasticities.

Table 1 About Here

All of the data is for 1977. The sample includes 168 SMSAs containing 46% of the American population, 39% of all grocery stores and 47% of grocery sales. Data limitations on square footage and on automotive ownership caused exclusion of the other SMSAs.

Statistical Technique

Ridge regression was used to test the hypotheses. It is a form of multiple regression which can be used to alleviate beta instability caused by collinearity (Hoerl and Kennard 1970).

Results

The statistical results are presented in Table 2. Overall, the ten independent variable performed quite well, as evidenced by an adjusted R^2 of .7243. All the variables are significant, however, (F/N) is quite weak and NMPH is of the "wrong" sign. Stability was attained at the rather high "K" level of .25.

Table 2 About Here

A 1% increase in average household income has a rather modest 0.1% impact on per household expenditures on food-stuffs. This is consistent with the notion of groceries as necessities which take an ever decreasing percentage of the consumer's budget. In fact, on average, in 1977 households spent only 12% of their disposable income on groceries. Household size has a greater impact. A 1% increase in POPH is consistent with a 0.4% rise in expenditures. Household mobility positively affects expenditures, as predicted. Increased automobile ownership raises expenditures while increased congestion lowers it.

Unexpectedly, NMPH had a significant positive sign. That sign is robust across various formulations of the empirical test (i.e., with various deletions from the independent variable list). It may be that causation runs in the opposite direction from that predicted: areas with high per household expenditures on food may attract "mom and pop" grocers. This notion is tested in the discussion section.

Increases in quality and quantity of service, and of assortment raise expenditures significantly. For instance, a 1% rise in the wage rate raises $(p*Q/H)$ by .4%. However, we cannot state that a 1% increase in quality of service has this impact since wages are an imperfect proxy for the conceptual variable. Naturally, it is impermissible to state that managers can increase household expenditures by raising their pay scales.

There is a slight positive impact of store size on consumer expenditure levels. While the result is clearly significant, it is sensitive to the problem formulation. (F/N) is statistically insignificant in many regression formulations. The true impact would appear to be ambiguous with a "leaning" towards the positive.

Finally, atmospherics (as measured by PEN) has a slight positive impact on expenditures. Considering that groceries are convenience stores, the small impact of atmospherics is not surprising. I expect that it would be more significant a factor in the shopping goods industries.

Discussion

Expenditures and Satisfaction

The empirical results support the notion that a small number of independent variables account for a large proportion of the variation in average household expenditures on grocery products. These variables are similar to the ones which Ingene and Lusch used to explain variations in household expenditures at department stores (1981). Thus, there is evidence that we have a fair understanding of the determinants of the consumer acceptance of the spatial marketing system.

Two caveats are in order, however. First, because consumer expenditures are only a proxy for consumer satisfaction, we do not know how much of the variation in satisfaction levels across SMSAs is accounted for by the ten independent variables. Second, the approach taken in this paper is one of partial equilibrium in grocery retailing; it has excluded the interactive effects from other spatial marketers. In particular, it seems clear that restaurants are a substitute for at-home food. A full analysis would require a simultaneous determination of expenditures/satisfaction in both grocery and restaurant retailing.

"Mom and Pop" Stores

It had been anticipated that the availability of a competitive source for at-home food would lessen consumer expenditures at grocery stores. In fact, the opposite result obtained quite strongly. This suggests that a high level of per household expenditures encourages small stores like "mom and pop's" to enter the market. If this is so, then there should be a positive relationship between the two variables directly. The ordinary least squares regression results are:

$$(p*Q/H) = 7.602 + .007 (NMPH)$$

$$\bar{R}^2 = .0025$$

$$NOB = 168$$

$$F = 0.42$$

which pretty clearly refutes the just stated hypothesis.

A final (and untested) hypothesis is based on the small size of "mom and pop" grocers. They may provide a certain "neighborliness" to shopping (Hall 1961). Where there are many of them, regular grocery stores may respond with more friendly service. This may enhance consumer expenditures and satisfaction with all grocers. Such an hypothesis can be tested with micro data.

Future Research

There are innumerable avenues for future research into the general topic of consumer satisfaction with the spatial marketing system. For example, broadening the research to include empirical investigations of other spatial marketing sectors, such as other lines of retail trade and the spatial service trade. It may also be possible to apply the analysis to some non-profit spatial marketers such as libraries. An important extension of the work, both theoretically and empirically, would be to examine the simultaneous determination of satisfaction in competitive industries. Obvious examples are grocery stores versus eating establishments and department versus apparel stores.

Another avenue for research would be to perform a detailed examination of those SMSAs which have a large residual. It is the interaction of theory, empirical work, and observation which yields greater insight into each. There is information on the theoretical and empirical weaknesses of this research contained

in those SMSAs, provided that it can be "dug out." Perhaps this is the place where macro and micro analyses of consumer behavior can be most profitably merged.

Macromarketing and Model Building

Macromarketing has been defined (Fisk 1982) as dealing with:

1. The impact and consequences of micromarketing actions on society (Marketing Externalities)
2. The impact and consequences of society on marketing systems and actions (Social Sanctions), and
3. The understanding of marketing systems in their aggregate dimensions (Macrosystem Analysis)."

This paper has been based on a mathematical model of the spatial macromarketing system. The model has yielded implications for understanding the determinants of consumer satisfaction (marketing externalities) and could be used to understand how environmental factors such as social sanctions impact upon the macrosystem.

The value of mathematical model building in macromarketing can be high. First, it can permit a analysis of phenomena whose interactive effects are complex or even hidden from view. Second, it can direct attention towards methods of making inferences about unobservable phenomena. Third, it can allow a direct linkage between micro actions and macro outcomes. Fourth, (and I think, most important) it can enable us to investigate "the well-being of society" (Tucker 1974,p35) from the economic/geographic perspective of marketing. These investigations can then be combined with the social psychology perspective in order to obtain a richer vision of marketing than either perspective can provide in isolation.

Figure 1

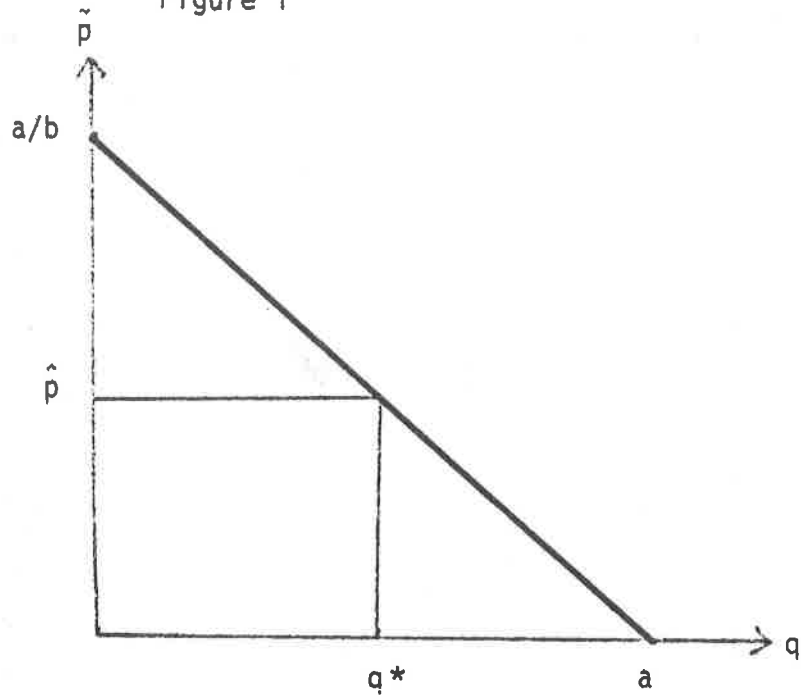
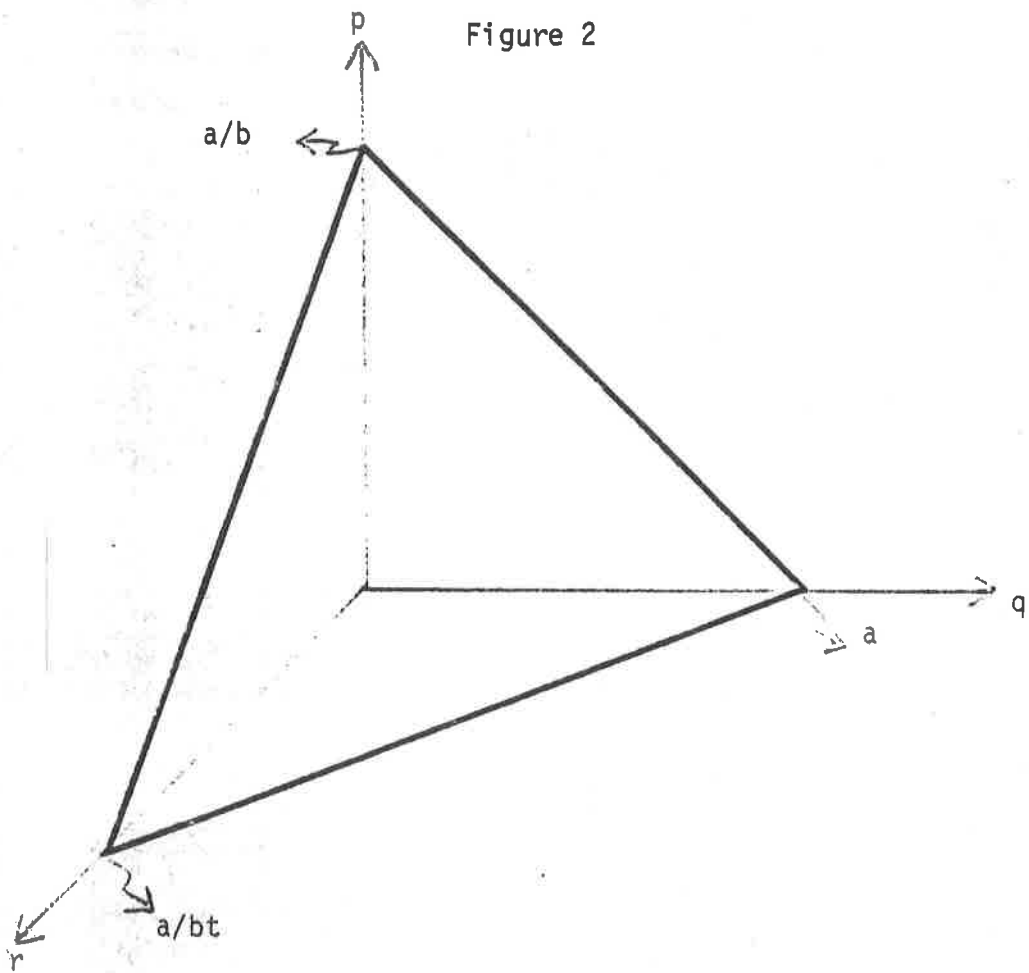


Figure 2



Conclusion

This paper employed an economic/geographic/marketing approach to the determination of consumer satisfaction in a spatial marketing system. Because satisfaction is the outcome of an interactive process between consumers and sellers, the major features of the process were modeled. Specifically, the number and spacing of spatial marketers were shown to be determined by four main categories of variables: (1) socio-economic and demographic characteristics of households, (2) psychographic characteristics of households, (3) environmental factors in the metropolitan area, and (4) marketing mix actions taken by sellers. Consumers were shown to expend more money when they are more satisfied with the system, and vice versa. An empirical test verified the model.

TABLE 1: Variable Definitions and Sources

Symbol	Name	Predicted Sign	Definition	Source*
Y	Income	+	Average household effective buying income	SBP
POPH	Household size	+	SMSA population divided by number of households	SBP
T	Mobility	+	SMSA automobile registrations divided by number of households	MVR SBP
T ϕ	Congestion	-	SMSA automobile registrations divided by SMSA square milage	MVR CCDB
NMPH	Interindustry competition	-	Number of "mom & pop" grocery stores per 1000 households	CRT,
W	Quality of labor	+	Annual wage rate in grocery stores	CRT
L/F	Quantity of labor/hours of operation	+	Grocery store employees divided by grocery store square footage	CRT
F/POP	Assortment	+	Grocery store square footage per capita	CRT,SBP
F/N	Assortment/Trade ? Area size		Square footage per grocery store	CRT
PCN	Location and Atmosphere	+	Percentage change in number of grocery stores, 1972-1977**	CRT

* SBP = "Survey of Buying Power;" MVR = "Motor Vehicle Registrations;" CCDB = "County and City Data Book;" CRT = "Census of Retail Trades;" MEI = "Marketing Economics Guide."

** Some SMSAs lost stores from 1972 to 1977; therefore, PCN was transformed upwards by 0.3 to take logarithms - this affects only the intercept.

TABLE 2: Regression Results

<u>Variable</u>	<u>Beta</u>	<u>Standard Error</u>	<u>t-Statistic</u>
intercept	.022	.029	0.770
Y	.094	.028	3.37*
POPH	.437	.053	8.29*
T	.110	.035	3.16*
T ϕ	-.019	.006	- 2.96*
NMPH	.039	.009	4.24*
W	.411	.033	12.27*
L/F	.520	.034	15.52*
F/POP	.569	.035	16.45*
F/N	.055	.027	2.05*
PCN	.036	.011	3.26*

$\bar{R}^2 = .7243$

F = 44.88; prob. < .001

D.F. = 157

* = Prob. < .01, ** = Prob. < .05 (two-tail)

K = .25

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Give course

COORDINATING ECONOMIES AND THE ECONOMIES OF COORDINATION
IN MARKETING CHANNELS:
TOWARDS A THEORY OF CHANNEL STRUCTURE

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May 1982

*Economies of specialization
scope of
potentially different activities together
to make each more efficient
Specialization - divides work into
creates coordination needs.*

* On leave from School of Marketing, University of N.S.W., Australia

Marketing scholars have not yet formulated a unified and complete theory of marketing channel structure. A number of important contributions have been made to understanding selected aspects of channel structure and the effects of particular variables, but these remain imperfectly interrelated. This is particularly apparent in the division between the economic theories of channel structure and so-called behavioral theories which focus on aspects of interfirm relations in channels including power, conflict, cooperation and satisfaction. Different economic theories of channel structure are imperfectly interrelated as are different behavioral theories, but of greater importance is the problem of relating the economic and behavioral approaches. The economic and behavioral approaches focus on different variables and use different methods of analysis and research such that it is not obvious how one relates to the other. To be sure, interrelationships between economic and behavioral variables are proposed, but not to the extent that a common underlying analytical framework can be said to exist. The interrelationships suggested are usually justified by ad hoc theorizing and the focus of attention is more on establishing the relationships empirically rather than analytically. The political economy framework proposed by Stern and Reve (1980) does not really provide a common analytical framework for considering the economic and behavioral dimensions. It is more an attempt to chart the variables used to analyze channels in a sensible way [Stern and Reve (1980), p. 53].

This paper attempts to bring together various theories of channel structure in terms of a common analytical framework. The framework is built on economic concepts rather than behavioral ones, but the behavioral variables are incorporated as an integral part of the overall framework. They are not added on to the economic analysis, but are central to it.

Channel structure is viewed as the pattern of allocation of production and

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marketing functions among and within the organizations comprising the channel. The first part of the paper reviews the various economic theories of channel structure. The main contributions of marketing scholars are briefly reviewed and then more general economic theories of industrial organization are examined in an effort to develop the contribution of marketing scholars. Of particular importance in this connection are the concept of economies of scope and the nature of scale economies.

The first part of the paper establishes the rationale for channel members specializing in different production and marketing activities. The next part of the paper addresses the issue of how the work of such specialists is coordinated and adapted to changing conditions. The behavioral dimensions of channels are introduced and related to the issue of coordination. Having established that the coordination of specialists' work is another type of work that takes place in channels, economic analysis is used to examine the way the coordinating work is organized. Emphasis is placed on the writings of Williamson and his development of the ideas of transaction costs and governance structures. The behavioral dimensions of channels are reinterpreted in terms of transaction costs and governance structures. Coordinating work is seen to be subject to the same economic principles used in Part 1 of the paper to explain how production and marketing functions are divided up among channel members and the importance of marketing activities as coordinating work is highlighted.

The final part of the paper emphasizes the need to examine and understand channel structure in terms of the simultaneous and interrelated attempts to achieve efficiency in the performance of both coordinating and operating tasks.

Channel Structure

Marketing channel structure is a special case of the more general issue of industrial organization. It is taken here to refer to the way production and

marketing activities are divided up among channel members. The existence of specialist marketing intermediaries of various kinds is one aspect of this. The allocation of activities to households is considered to be a natural aspect of the problem.

Channel structure can be specified with different degrees of precision. The allocation of activities can be traced to the level of institutional type (wholesaler, retailer, advertising agency, broker, manufacturer, etc.), the individual enterprise, the establishments within enterprises, the departments or groups within establishments or to the individual. In addition the allocation of tasks among different channel systems may be considered. The concepts of unit flow channels [Fisk (1967), p. 93; Dixon and Wilkinson (1982a,b)], channel groups [Breyer (1949), Dixon and Wilkinson (1982b)], transaction and exchange channels [Bowersox (1965)], reflect a concern for this type of division of activities. In addition to the division of activities among organizations and individuals the concept of channel structure includes the division of activities among places and times.

The following analysis is sufficiently general that the level of precision with which channel structure is specified is irrelevant. In general the same principles which cause individuals to specialize cause organizations of individuals to specialize including establishments, enterprises, institutional types and channels. Furthermore, these principles apply to temporal and spatial specialization as well. However, the focus of analysis in this paper will not be on temporal and spatial specialization.

The nature of the production and marketing activities which are divided up in channels can also be specified with more or less precision. As will be shown, the division of activities into component activities is important to an understanding of channel structure and its determinants. Nevertheless, the fol-

lowing three types of activities are thought to be the basis for channel structure analysis [Dixon and Wilkinson (1982a), p. 12]:

(a) Contact: If there is to be interaction between a buyer and seller there must be a communication processes, which involves a two way movement of information between the parties involved. The communication of information is the means by which agreement is reached about the terms of a transaction and the basis upon which all activities are planned.

(b) Material transformation. In order to meet the requirements of the buyer (and user) a material good or personal service of some kind is required. This involves transforming material in form, time and place, including the movement of people.

(c) Contract. Market transactions involve the transfer of ownership and usership rights between the buyer and seller for the goods and services in question. The transfer of money payments from buyer to seller is one aspect. This classification of functions is similar to that proposed by Bucklin (1972).

ECONOMIES OF SPECIALIZATION

Economic Theories of Channel Structure Proposed by Marketing Scholars

Introductory marketing textbooks usually present a very simple economic rationale for the existence of middlemen in channels. With direct transaction between suppliers (S) and users (U) there are $S \times U$ transactions (contacts, shipments, payments, etc.) but with the introduction of a middleman who deals with all suppliers and users the total number of transactions is reduced to $S + U$. Assuming a fixed cost per transaction this represents a potential economy provided by middlemen.

This simple idea has been developed by several writers [Balderston (1958), Baligh and Richartz (1967)] to include the introduction (a) of additional middlemen to compete with the first middlemen, who is a monopolist, and (b) the appearance of additional middlemen levels to reduce the contacts between middlemen and their suppliers and customers. With various assumptions about the nature of costs and transaction patterns, equilibrium conditions for channel structures can be determined in terms of the number of middlemen and number of levels of middlemen in a channel.

A separate but not unrelated approach emphasizes the scale economies gained by middlemen and builds on the work of George Stigler and his classic article "The division of labour is limited by the extent of the market" (1951). Stigler proposed that a firm's costs be broken down in terms of the costs of performing the various component functions or activities, rather than the traditional breakdown in terms of fixed and variable costs, or labor, capital and land costs.

To simplify his argument he assumes no interaction between the costs of performing different functions, that the cost of a function depends only on its

rate of output or scale, and that there is a constant proportion between the rate of output of each function and the rate of output of the final product. Some functions are subject to decreasing returns to scale and some to increasing returns. The increasing cost functions eventually push up total costs and prevent a firm from taking full advantage of the increasing return functions. Decreasing cost functions can be given over to specialist firms provided the industry demand for that function is sufficient to support such a specialist.

Increasing cost functions may also be abandoned or restricted in scale. Part of the required amount of such a function may be performed in the firm and the rest purchased from subsidiary industries providing the total demand for the activity is sufficient to support the specialists.

While Stigler was concerned mainly to explain the supply of components required for manufacturing a product, the arguments have been used by marketing scholars to explain marketing specialists. For example Mallen (1973) used the term "functional spinoff" to describe the abandoning of marketing functions to specialist intermediaries basing his analysis on Stigler's arguments.

A problem arises with the nature of increasing cost functions. Are these examples of diseconomies of scale? Stigler does not give an example of a rising cost function and nor does Mallen. However Mallen argues that: "With a rising cost curve, it would make sense economically to spin off certain functions to small specialists when the firm has achieved sufficient volume. These small specialists can perform the rising cost function at lower costs if they ... stay small and do not combine the volumes of too many producers" (p. 20).

If such diseconomies occur why doesn't the producer establish a number of small operating units within the firm to perform the function? It seems absurd that the firms would build larger operating units if they are less efficient. Instead it should duplicate smaller, efficient units. A response to this argu-

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ment may be that the diseconomies arise as a result of the problems of managing numerous small units within the one organization. But why does the delegation to other firms solve the problem? Is management by the market more efficient? The issue of managerial efficiency is plainly important and will be taken up later in the paper but, excluding management considerations, are there any functions subject to rising costs as a firm's output increases

Dixon and Wilkinson (1982b) argue that the rising cost functions reflect marketing activities. These costs rise not because of diseconomies of scale but due to the increasing amount of work required to sell the output of the firm. Thus in effect one of Stigler's assumptions has to be dropped to account for rising cost functions, i.e. that the output of a function is a constant proportion of the rate of output of the final product. Marketing activities were not specifically considered by Stigler. He was concerned with production volume not sales volume and would presumably have made assumptions of perfect information and no transport costs. But if we introduce the marketing costs associated with selling the output of the firm, i.e. contact, contract and material work, it becomes apparent that increasing the firm's output involves selling products to more and more customers. This involves increasing average transportation costs per unit sold as greater distances have to be travelled and increasing average promotion and research costs to discover and attract increasingly resistant and difficult to find additional customers. In general it may be argued that in order to expand its output it must focus attention on additional market segments which are more difficult to reach and satisfy. Transportation and promotion costs are two examples of this but other work is also necessary if a firm's output is to be tailored to the needs of additional segments including modified services, packages and product design. A similar argument should apply to buying inputs from more distant and difficult to contact sources of supply.

Marketing activities are subject to scale economies but these are not sufficient to keep pace with the additional marketing work required to expand a firm's output. As a result marketing costs rise. However, it may still be possible to gain economies from delegating marketing functions to specialists provided they operate on a larger scale for the relevant function. Thus advertising agents may be smaller in total than the firms they service but they are performing advertising functions on a larger scale. If advertising functions are spun off to them the promotion costs do not rise as rapidly as they would if the firm did its own advertising.

Stigler's analysis also served to draw attention to environmental factors shaping channel structure through constraints imposed on the ability to achieve scale economies. The most important is the size of the market for the firm and the industry. As the size of the market for an individual firm's output changes its ability to achieve internal economies of scale is affected. Also as the size of the market for a particular activity changes it affects the kinds of specialist intermediaries that can exist and the numbers of them that can be supported.

Bucklin (1966, 1972) has developed an economic theory of channel structure built on the idea of scale economies and the economy of reduced contacts. He focussed attention on the bulk transaction economies afforded by middlemen handling transactions to link a number of suppliers and users.

The economy of reduced contacts has to be considered in conjunction with the economies of bulk transactions. While a middleman reduces the total number of transactions between suppliers and users the result is that two transactions now are required to accomplish the linkage between a supplier and user, i.e. S-M-U instead of S-U. However the individual transactions are bulkier. The economies resulting from bulk transaction must be sufficient to overcome the

costs of adding the middlemen.

Bucklin shows how, as the output of a channel changes in various ways the relative efficiency of using a middleman versus a direct channel alters. The dimensions of channel output he considers are: the volume of goods moving through the channel, and the number of buyers; the distance between producer and user; the users' time horizon regarding delivery; market decentralization; and product assortment size. In general his argument can be summarized in the following way. Due to the scale economies available to middlemen their costs fall more rapidly, or do not rise as fast, as the relevant output dimension of the channel increases. Eventually these economies overcome the costs of setting up the middlemen.

Dixon and Wilkinson (1982b) attempt to bring together various economic concepts underlying channel structure and show their interrelationships. Scale economies and specialization are central to their argument and they draw on the rather neglected but important works of Florence (1933, 1964, 1969). They summarize their argument as follows:

"We will show that firms can be viewed as combining resources to perform a number of activities and that for efficient performance different activities may require different scales of operation. Furthermore, an individual firm is usually unable to perform all necessary production and marketing activities for a particular good or service at the optimum scale because of two factors. First, the scales of operation required for different activities may be mutually incompatible and secondly the firm is constrained by the size of the market for its output and the costs of reaching its market. In order to overcome these constraints, at least partially, activities can be turned over to specialist firms. These specialist firms provide external economies to other firms because they operate at different, more appropriate scales with regard to the relevant activities. This is possible because specialist firms combine similar activities from a number of firms and thus alter the market size constraint. For example, a retailer selling products on behalf of a number of manufacturers is able to provide the same service at less cost (or provide some additional service at the same cost) when compared to the situation where manufacturers perform the retailing activities themselves. In addition to moderating the effect of the market constraint, certain incompatibilities among the optimal scales of operation required for different activities may be overcome to some degree by turning over tasks to specialist firms.

The optimal pattern of specialization among firms in a channel will vary according to the nature of the marketing activities to be performed and therefore different channel structures are to be expected for different goods and services. Channel operating structures will also vary over time and space as environmental conditions differ. Changes in technology will affect the optimal scales of operation required for different activities and the costs of performing the activities. Changes in the market size constraint, which may stem from changes in tastes or economic conditions, will affect the kinds of operating structures that are economically feasible" (p. 224-5).

Drawing on Florence's ideas they argue that there are three factors which underlie the efficiency of large scale operations and which specialization makes possible: the principle of multiples, bulk transactions and massed (pooled) reserves.

1. The principle of multiples stems from imperfectly divisible specialist factor inputs. As a result "you cannot always purchase equipment, labor and locations which produce exactly the amount you wish at least cost" (p. 231). However, increases in the scale of operation of a firm permit such specialist factor inputs to be fully utilized. A specialist marketing intermediary can gain economies from the principle of multiples because it operates on a larger scale for the relevant function.

2. The principle of bulk transactions has already been mentioned. It is a special kind of scale economy which occurs because the costs of a transaction do not rise directly with the size of the transaction.

3. The principle of massed (pooled) reserves has to do with uncertainties, and is very similar to the idea of "the law of large numbers" which underlies the process of insurance. "If there are enough events, it is more likely that we can make an accurate prediction of a particular type of occurrence -- as the number of coin tosses increases, it becomes more and more likely that exactly one half of the results will be heads. In the case of fire insurance, for example, you cannot predict the chance of one of ten houses being damaged in a particular year, but if you are considering a group of 100,000 houses, it is

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more likely that you could predict that one of these would be damaged in a given period of time. The same principle holds in the extension of credit. If you are dealing with ten customers, you cannot predict losses, but if you have 100,000 customers, credit losses can be predicted more accurately, and thus a proportionately smaller reserve is needed. Again, inventories provide an example of the principle. It is possible to estimate fluctuations in demand more closely if there are large numbers of customers since the increased demand of some may be offset by reduced demand by others" [Dixon and Wilkinson (1982b), p.].

The principle of massed reserves, or pooled risk as it is sometimes called, has been used by other writers to explain the economies of holding central inventories to meet uncertain demand fluctuations (e.g. Hall, 1950, pp. 75-88).

Dixon and Wilkinson (1982b) explore how these three principles underlie the economies of various types of intermediaries in marketing channels and how the principles interact with each other. They also incorporate as part of their analysis the economy of reduced contacts.

Economic Theories of Industrial Organization

Channel structure represents a particular aspect of the study of industrial organization. We have seen how marketing scholars have used ideas from this field of study to explain channel structure. Recent developments in this area offer an opportunity to develop our understanding of channel structure.

According to Coase (1972) a theory of industrial organization is conspicuous by its absence. He argues that industrial organization theory has been misdirected, being in the main little more than applied price theory. It says little about the way economic activities are divided up among firms to the point "we would be unable to explain why General Motors was not a dominant factor in the coal industry, or why A+P did not manufacture airplanes" (p. 67). Even

theories which seem to deal with industrial organization, i.e. optimum firm size and economies of scale are inadequate, Coase argues, because the questions they seek answers to are misdirected and overly preoccupied with monopoly problems. Stigler's classic article is seen as an exception. However, since 1972 important developments in this area of economic theory have taken place. Oliver Williamson's work on transaction costs is of particular importance and relevance to channels and will be considered later. In addition the concept of economies of scale has been subject to a searching analysis by Gold (1980), Panzar and Wiley (1981) have proposed the concept of economies of scope and Richardson (1972) has formulated some interesting ideas about the interrelationships among activities. Together these developments provide a perspective on channel structure which suggest ways to advance and consolidate existing ideas. First I begin by considering what is meant by economies of scale.

Marketing scholars have often referred to scale economies in explaining channel structure but Gold's recent survey of the literature on this subject indicates that the notion of scale economies in economics is not very clear: "... analyses have repeatedly called attention to the fuzziness of the basic concept of scale and to the uncertainties about the success of expected benefits" (1980, p. 5).

Traditionally economic theory defines scale ^{economies} ~~increase~~ in a very restrictive way that seems to exclude any possibility of efficiency gains. Increases in scale are defined as "increases in the size or capacity of production units, provided that there are no changes in factor proportions - or by direct implication, in the products made and in the basic technologies employed" [Gold (1980), p. 6]. The fundamental sources of economies of scale are increases in the degree of specialization of labor and machines (and other factor inputs) which are possible as capacity increases. This was pointed out long ago by Adam

Smith. But alterations in the patterns of specialization in large firms necessarily imply changes in factor proportions which conflicts with the traditional definition of scale economies.

In conducting empirical studies of scale economies, economists have had to face additional problems including heterogeneous products and product mixes, and variations in the technologies used to produce similar products. The result has been that a much looser approach to the concept of scale economies has been adopted, in which gains from changing factor proportions due to specialization and technological improvements tend to be accepted as sources of scale economies.

The term scale is used to apply to the size of the firm. But it is also useful to think in terms of the scale of a function or activity, i.e. its rate of output. A firm usually performs many functions which do not vary directly with the overall output of the firm. Scale economies thus result from increased levels of output of a function rather than the scale of the firm. The sources of such economies are the same - the opportunities provided for increased specialization.

The value of this focus on functions rather than the firm has already been indicated in understanding the rising cost functions. The rate of performance of some functions will vary directly with a firm's total output but other functions will vary in response to factors in addition to this including, number of customers served, size of transactions, distance to suppliers and customers, and so on. Bucklin's theory of channel structure focuses on these additional factors in order to show how they effect the efficiency of a middleman versus direct channels. He shows how, as the scale of particular functions increases in the channel, opportunities exists for increased specialization within the channel. At lower levels of output the introduction of a specialist is not

efficient.

The focus on the scale of a function also allows us to address more directly the issues raised by Coase (1972) when criticizing traditional discussions of economies of scale. He argues that such discussion tells us nothing about the effect on costs of conducting one activity, of undertaking another activity or about the relative costs to different kinds of firms undertaking particular activities" (p. 65). Coase notes that Stigler's article did attempt to deal with these questions and what is proposed here is an extension of Stigler's approach in order to address these issues. Instead of assuming that there is a constant proportion between the rate of output of each function and the rate of output of the final product, (a) we allow for variable proportions and (b) we recognize that the rate of output of different functions is affected by dimensions of a firm's output in addition to the number of units produced or sold.

A second extension of Stigler's analysis is to allow for interrelationships among the costs of performing different functions. These interrelationships are recognized in the development of the concept of economies of scope and in Richardson's (1972) concepts of similar and complementary activities.

Before I discuss these ideas it is important to recognize one issue raised by the concept of the scale of a function. How are functions defined? Functions can be specified at a very detailed level as well as at more macro levels. The level of classification will depend on the level of channel structure one is attempting to explain. To analyze the division of activities among individuals in a firm requires a more detailed classification scheme than that required to analyze the division of activities among firms or among channels. In economics the tendency is to focus on products rather than activities. However, supplying a product can be viewed as a type of activity (or a particular assortment of activities). As we will see it is often useful to examine the component activi-

ties which together are involved in supplying a product if we are to make sense of channel structure.

Most firms are multi-product and multi-function. The economies that result from the joint production of two or more products (functions) by a single firm, rather than producing them separately, are referred to as economies of scope (Panzar and Willig, 1981). Such economies are thought to be particularly relevant in explaining marketing intermediaries such as retailers which carry many different products and brands [Williamson (1981b), p. 1547, note 18]. The economies of scope stem from the ability of firms to exploit some type of excess capacity in an input shared by two or more product lines or functions. This occurs because the shared factor is imperfectly divisible and so its capacity cannot be matched precisely with the output requirements of a single product or function (Teese, 1980). An input could refer to any input including labor (e.g. the capacity of a specialist worker or manager), land (by the capacity of a certain sized block of land), capital (e.g. the capacity of a building or machine).

The economies arising from combining different products and functions in the output of one firm have been suggested by a number of earlier writers, including marketing scholars [e.g., Penrose (1959), Bucklin (1966)]. Also, Alder's (1966) concept of "symbiotic marketing" seems to refer directly to economies of scope and Grether (1974, pp. 3-4) has stressed the need to distinguish synergetic effects from traditional ^{Scale} economies. Panzar and Willig have focused more systematic attention on the nature and sources of these economies and allowed their general significance to be understood and developed.

An earlier article by Richardson (1972) is also important in focusing attention on the economies of joint production. He distinguishes between similar and complementary economic activities. Similar activities are those requir-

ing the same capability for their undertaking. While Richardson does not develop the idea of capability it seems to relate to the nature of the inputs required to perform different activities. To the extent that functions require the same inputs they are similar and to the extent that they require activity specific inputs they are not similar to other activities. This is in accord with Panzar and Willig's idea of shared inputs underlying economies of scope. But Panzar and Willig also focus attention on the capacity limits and imperfect divisibility of inputs.

Richardson also defines activities as complementary to the extent that they represent different phases of the process of production (including marketing processes) which have to be coordinated. The problem of industrial organization is that complementary activities may not be similar.

Complementary activities seem to reflect to a different kind of similarity among activities, a similarity in terms of demand conditions rather than supply conditions. This may also reflect different kinds of shared inputs. In particular the different phases of production and distribution have to be coordinated to provide a final output which satisfies consumers' requirements. Maybe the shared inputs here relate to marketing inputs, buying inputs, or coordinating inputs? Or, perhaps marketing inputs are coordinating inputs? I shall explore the relationships between marketing activities and coordination later in this paper.

In general activities require a number of inputs. Some of these inputs may be activity specific, being highly specialized to a particular activity, and other inputs may be common to a number of other activities. However, an activity may be similar to one set of activities in terms of one input(s) but similar to other activities in terms of another input(s).

If two activities have completely identical inputs they are obviously not two activities but the same activity. An increase in the scale of a function or activity can be interpreted as combining identical activities and economies of scope arising from combining non identical but similar activities. In both cases the underlying sources of economies seem to be the same -- the ability to fully employ more specialized inputs of land labor and capital. As the scale of operation of one function is increased, more specialized personnel and machinery can be employed that would have been underutilized at lower levels of output. When similar but not identical functions are combined, specialized but shared inputs can be more fully utilized.

Industrial organization in general and channel organization in particular arise as a result of attempts to seek economies from aggregating activities to gain economies of scale and scope. A more general term for these economies would be aggregation economies, a term used by Williamson (1981b). Different types of (sometimes incompatible) aggregation are required to achieve economies in performing different functions and each of the economic principles so far discussed can be interpreted as referring to the economies arising from a different type of aggregation. We have already interpreted scale and scope economies in this way. Bulk transactions refer to the economies of aggregating similar transactions and pooled risk refers to the economies arising from aggregating uncorrelated uncertain demands or events. The principle of multiples refers to the imperfectly divisible specialist inputs that can be more fully utilized as the scale of one function is increased or functions sharing these specialist inputs are combined.

This section of the paper has identified a number of economic principles which underlie the structure of channels of distribution. We have seen that the ability of channel members to perform particular functions on a larger scale or

to combine functions which require common inputs provides a basis for understanding channel structure. The particular structure that arises at any time and place thus depends on the functions to be performed, the available technologies for performing the functions and any market or legal constraints on the ability of firms to combine functions or increase their scales of operation.

A problem arises in the aggregation of activities with shared inputs in that one pattern of aggregation may be dictated by one type of input and another by another type of input. One solution is to subdivide functions into smaller component activities which require different inputs so that they may be aggregated separately and efficiencies achieved.

The result of aggregating similar and identical activities is a pattern of division of activities among channel members, both among and within firms. But how are the outputs of the specialists to be combined, especially if similar or identical activities are not complementary?

The costs of coordination have been recognized as creating problems in expanding the scope and scale of a firm. "[Such expansion] tends to produce strains within the administrative structure which raise the cost of organizing additional operations" [Coase (1972), p. 64]. In addition the problems of coordinating different firms has to be considered. Can we assume the markets and competition solve this problem efficiently and effectively? More generally, how do coordinating activities fit into the analysis so far presented? Is coordination or management a special kind of input required by each activity or is it a separate function?

Coordination can be regarded as another function performed by a firm which uses specialist inputs including labour and various capital inputs. Firms can aggregate activities so long as the "coordinating capacity" of the firm is not exceeded. But what does this mean? If we assume a fixed management group with

finite capacity, increasing the scale or scope of the firm may exceed this capacity and result in increased management cost. But why can't a firm add more managers and increase the degree of specialization in the management group to gain scale economies in the coordinating function? The answer seems to be that as the size of the firm increases the amount of coordination required increases more than in proportion to the increase in output because of the number and types of specialists workers and other inputs that have to be combined increases. This includes the problem of coordinating specialist coordinators!

One aspect of the costs of organizing additional activities in a firm has already been referred to when we discussed rising cost curves. As firms expand their activities average marketing costs, in particular transport and promotion costs, are likely to rise. This also plays a role in limiting the size of the firm.

But if a firm's size is limited by the cost of internal coordination and marketing costs, how are complementary activities, which may not be similar, coordinated? Presumably via the market or some other coordinating mechanism than the firm. But how can the market improve on internal management and what about the problem of increasing marketing costs? To address these issues we turn to an examination of coordination and coordinating costs.

COORDINATION OF SPECIALISTS

The coordination of the work of specialists is as important to an understanding of channel structure as the economies to be gained through specialization. In the context of intrafirm organization Church and Axford (1960) have observed:

The coordination of effort is a inseparable counterpart of the division of effort. By coordination is meant the prearrangement of a number of separate efforts in such a manner as to produce a definite end The coordination of administrative effort is the most complex and debatable problem of all. The moment we begin to divide effort, we

must also begin to provide for its coordination (p. 204).

We have examined the economies associated with the division of effort. We will now examine the nature of coordinating activities and the economies of coordination.

Specialization involves dividing up activities into component activities and allocating these component activities to different factor inputs including people, machines times and places and techniques [Miller (1959), Barnard (1938)]. At a more macro level of analysis we talk about the activities being allocated to different organizations of factor inputs, i.e. departments, establishments, enterprises, channels and industries and even the economy as a whole. All factor inputs (and organizations of factor inputs) can specialize and be specialized to a greater or lesser extent. Such specialization results in economies because it permits a finer matching of activities to the attributes of different factor inputs or organizations of factor inputs (a special example of the matching of demand and supply!). Factor inputs are heterogeneous in that they have different attributes with more or less relevance to the performance of particular activities. Some of these differences are built into the factors at birth by engineers, nature or by mom and dad. Other differences emerge as a consequence of specializing in particular activities due to learning. Thus a finer matching of activities and the attributes of factor inputs improves performance. There is also no loss due to the costs of switching among activities that require different factor input attributes. These are essentially the reasons Adam Smith gave for the economies of the division of work and the division of labor, expanded to include other factor inputs.

The dividing up of functions into smaller sub functions results in a set of complementary activities. Richardson (1972) assumed that an assortment of economic activities existed in order to define complementary and similar activi-

ties. The activities represent the way in which the work of the economy is divided up. The ways in which the work of the economy can be divided up is infinite but certain subdivisions permit more economies of specialization than others because they allow a better matching of activities with heterogeneous factor inputs.

The coordination of activities is not an activity created because of specialization. The component functions of a larger function always have to be coordinated but, before specialization, this was built into the way in which the overall function was performed. Presumably, before specialization one person did the work by him or herself and coordinated the component activities through internal planning activities.

While specialization does not create coordination activities it makes this activity more explicit and also changes the nature of the coordination task. Without specialization one person coordinated the subactivities through his own mental and physical processes. When the subactivities are divided up among more than one person, not only do the subactivities have to be coordinated but the people doing the work have to be coordinated as well. This applies generally to all factors that specialize. Specialization creates the work of coordinating the specialist factor inputs to which the subactivities have been assigned.

The division of work into (say) two component activities results in three not two activities -- the two component activities and the coordinating activity. Furthermore, the allocation of the component activities to factor inputs which specialize creates another activity -- that of coordinating the specialist factor inputs. The problem of channel structure and industrial organization has to be concerned with the efficient performance of both the primary activities (i.e. production and distribution) and the secondary or coordinating activities. While coordinating activities should be subject to the same economic principles

of specialization discussed above, a problem arises because primary and secondary (coordinating) activities are interdependent. The economies gained through specialization in primary activities affect the economies of specialization possible in the secondary activities and vice versa!

I will examine the economies associated with performing coordinating activities in the next section of the paper. For the remainder of this section we examine the nature of coordinating activities and how they are related to the behavioral dimensions of channels.

Coordination refers to the adjustment of interrelated activities to one another. The interrelationships that necessitate coordination stem from shared inputs used to perform the activities as well as common output characteristics such as the outputs have to go to a common person, organization, product, time and/or place.

When coordination takes place in one person's mind, we talk about planning processes or decision making processes. When coordination takes place in multi-product firms this planning is shared and other processes of coordination become apparent which involve communication and negotiation. When several firms are linked in a marketing channel we think of coordination being achieved by the market mechanism, including the processes of competition. But channels are often coordinated in other ways than by the impersonal forces of the market.

In essence coordination involves two kinds of processes, which may be termed planning and implementation. Central to the idea of coordination is the planning aspect. The planning aspect involves deciding what is to be matched, i.e. the activities and the actors and how this matching is to be accomplished. When more than one person or organization is involved, this involves reaching an agreement between the parties involved, including determining the parties to be involved in the first place. In a market pairs of buyers and sellers come

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together and a joint agreement is reached as to how the activities of each is to be adjusted to meet the requirements of the other. Of course sometimes agreement is not possible and a market transaction never occurs. Within firms employees agree to a general employment contract and then allow someone else to decide how their actions are to be matched with others.

Having decided or agreed on the matching to be achieved the process of adjustment must then be carried out. This involves performing the relevant activities in an appropriate manner and transferring the outputs between the activities and actors. In a market transaction we can think of the various material transformation processes as carrying out the coordination agreed upon including producing an appropriate product, packaging, transportation and storage. But the implementation aspect of coordination also involves drawing up enforceable contracts, making payments from buyer to seller, providing information, and monitoring performance.

Coordination takes place in a changing environment so that an agreement or decision reached at one time may not be appropriate at a later time. Hence new agreements or decisions have to be made or old ones adapted depending on the nature of environmental change. This need for adaptation even occurs during the process of implementing a particular agreement or decision. The need to make such adaptations in the face of uncertain future circumstances lies at the heart of the of coordination problem.

The foregoing discussion of coordination makes marketing activities of central importance when we are concerned with coordinating firms' activities to each other and with households via markets. All marketing activities are coordinating activities. In a sense all economic activity is coordinating activity, coordinating demand with the original source of supply, i.e. nature.

The importance of coordinating activities to an understanding of channel structures has been emphasized by a number of marketing scholars but they have usually used terminology which makes their similarity to each other and to coordination unclear. In particular Alderson's concepts of sorting and his distinction between sorts and transformations seems to be equivalent to coordination planning (sorting) and implementation (transformations). However, he and others seem to use the term sorting inconsistently. At times the term sorting seems to be used to refer to a planning process whereby the outputs of different activities are reclassified and reassigned and the term transformation is used to refer to the processes of carrying out these reassignments in time, space or form [Alderson and Martin (1965), p. 123]. At other times the term sorting seems to refer to both the planning and implementation aspects of coordination.

Arndt (1979) has recently stressed the importance of interfirm coordination in channels from the perspective of the individual firm. He even suggests the addition of a fifth 'P', "politics," referring not only to the politics of external relations with other firms but also to the internal politics of firms and the interrelationships between the two.

Balderston and Hoggat (1962) and Forrester (1958) have demonstrated the effect of communication processes, an essential aspect of channel coordination, on channel performance using simulation methods. McGarry (1951) has also stressed the importance of communication among channel members in his discussion of the contactual function.

The main way in which channel coordination is approached by marketing scholars is in terms of the behavioral dimensions of channels. The behavioral approach is based on organization theory and theories of intra firm management (Etgar and Izraeli, 1982). The focus is on apparently non-economic variables, or

variables which do not seem to be immediately amenable to the kind of economic analysis we have been discussing in the first part of this paper. However the behavioral variables can be interpreted as different aspects of coordinating activities and in this way be made subject to economic analysis.

A number of behavioral dimensions have been identified by researchers all referring to different aspects of inter-firm relations. I will focus on two because of their significance -- power and conflict.

Power refers to the ability of one person or firm to affect the decisions and/or behavior of another. The power a firm has over other firms stems from the dependence of other firms on it. This interdependence among firms is a direct reflection of the way in which activities are divided up among firms and the characteristics of the interrelationships among these activities. Hence the sources of power link back directly to the problem of specialization in a channel. But power is also the means by which agreements are reached between firms as to how their activities are to be adjusted to each other. We generally think of power being used to impose an agreement on another party but a variety of methods of using power are usually identified, not all of which result in another firm agreeing to do something against their will. In particular Hunt and Nevin (1974) have distinguished between power which leads to a begrudging agreement and power which leads to a willing agreement. Furthermore both firms in a dyad will have some power to the extent they are interdependent. Hence the process of reaching agreement involves a two way use of power or a negotiation in which a variety of means of influence may be employed. A variety of classifications of these means of influence have been proposed that need not detain us here.

Within a firm a formal power structure exists whereby the coordinating activities are subject to a separate pattern of division of labor and special-

offs that sometimes have to be made when improved performance of one firm's activities is inconsistent with the maintenance of existing performance standards of another firm or with improved performance. Jansson (1982) and Etgar and Izraeli (1982) has explored the nature of these interfirm interdependencies in a systematic way and revealed the nature of the conflicts and coordinating problems that arise.

Conflict viewed in this way appears to be a particular aspect of the "discrepancy of assortments" concept proposed by Alderson. Writers have identified a number of component discrepancies including form, time, place, information, value, ownership and mix [see for example Dixon and Wilkinson (1982), p. 5-6]. Discrepancies of value and information seem to be directly related to conflict and are similar to the usual explanations of the sources of conflict given in the literature, i.e. regarding incompatible goals, perceptions, and communication problems. These discrepancies reflect the problem of reaching agreement between the parties involved. The other discrepancies refer to the work that has to be done to achieve coordination if an agreement can be worked out.

We tend to think of conflict as occurring in a relationship between firms that is already established. Somehow the firms have seen some potential for agreement. They presumably do not bother to contact those they have no hope of agreeing with (e.g. firms in different industries and channels). Conflict arises in reaching the initial agreement but also in renegotiating the agreement when the first lapses and conflict also arises during the course of implementing a particular agreement as conditions change.

Having identified coordinating activities as central to an understanding of channel structure and having seen that conflict and power reflect aspects of the coordination task or process it remains to consider the way in which coordination activities can be organized and carried out in channels and what determines

ization. The management hierarchy reflects this specialization in coordinating tasks. While power is separated from what may be termed "operations" in the formal hierarchy of authority it is recognized that an "informal" power structure also exists in a firm which stems from the pattern of specialization adopted by the firm.

Within a channel a power structure does not usually exist which is separated from the channel operating structure. Instead the power structure and operating structure are closely intertwined and coordinating activities are decentralized in a system of interrelated agreements between pairs of firms linked via the market. Sometimes coordinating activities may be more centralized as when the channel is vertically integrated or when one firm is able to assume a "leadership" role or a locus of control (Bucklin, 1968). More likely there will be several loci of control for coordinating different aspects of channel activity, especially when it is recognized that power is situation specific.

When a person coordinates his various actions we do not use the term power. Power is an aspect of coordination when the activities of more than one person has to be coordinated. It seems that we can think of the power of firms in a channel as the pattern of division of abilities to achieve coordination agreements. The way in which channel coordination takes place is in this sense determined by the pattern of power relationships.

Conflict usually refers to the situation in which one firm's actions or potential actions interfere or are perceived as likely to interfere with another firm's actions. Conflict is then simply a reflection of the difficulty of reaching agreement between the parties involved. Conflict stems from the nature of the interdependence among firms, which is a consequence of the way activities are (or could be) divided up among channel members. In particular the trade-

the choice of particular modes. This will lead us back to the economic principles discussed in Part I of the paper.

ECONOMIES OF COORDINATION

Having examined the nature of coordination we must now address the issue of how coordination activities are organized in channels. We seek answers to the following questions: "Why are channels coordinated in different ways for different products? Why does channel coordination differ at different times and places? To help answer these questions we turn to the important writings of Oliver Williamson. Essentially Williamson's answer is that efficiency considerations explain the choice of coordination method or, in his terms, "governance structure." In particular governance structures are developed to minimize transaction costs, which reflect the costs incurred in performing coordinating activities. Williamson's contribution is based on the earlier ideas of Richard Coase (1937) and John Commons (1934) who drew attention to the issue of transaction costs. Williamson has attempted to develop these earlier insights into a comprehensive, rigorous and testable form of analysis. Other writers have made important contributions to the analysis of transaction costs. The works of Kenneth Arrow (1974) and Frederick Warren-Boulton (1978) are particularly relevant. The economic analysis of X-efficiency [Liebenstein (1966)] and the economic theory of agency [Ross (1973)] are also relevant but the primary emphasis here will be on the ideas of Williamson.

Although Williamson's analysis is formulated in terms of transaction costs, he recognizes that this is the way he has formulated the coordination problem. Thus he draws a parallel between his work and that of Thompson (1967) commenting that "we both contend that economizing on 'coordination costs' ... is crucial to the definition of the boundary [of a firm] and to the way in which internal

relations are organized" (Williamson (1981), p. 569).

Transaction costs are related directly to the problem of reaching agreement among specialists performing interrelated activities and carrying out the terms of any agreement that is reached. Williamson defines a transaction as occurring "when a good or service is transferred across a technologically separable interface. One stage of processing or assembly activity terminates and another begins" (1981, p. 1544).

The costs of reaching agreement are expressed in contractual terms:

"Each feasible mode of conducting relations between technologically separable entities can be examined with respect to the costs of negotiating and writing as well the ex post costs of executing, policing and when disputes arise, remedying the (explicit or implicit) contract that joins them" [Williamson (1981b), p. 1544].

Market transactions are one kind of transaction or, more precisely, one mode of conducting transactions. The costs associated with marketing activities are thus, in the context of market transactions, the transaction costs.

The term governance structures is used to refer to the various modes of organizing transactions. The market and the firm are the two basic types although there are many variations of these two. A third basic type could be the organization of transactions within the mind of one person when he or she performs two technological separable but interrelated activities. But Williamson does not consider this, and nor will we.

Williamson focuses on the efficiency of alternative governance structures in relation to the characteristics of transactions. He identifies three dimensions of transactions which have an important bearing on the most appropriate governance structure. Each of these dimensions reflects an aspect of the coordination problem and therefore affects the transaction costs that must be incurred to complete the transaction.

The efficiency of alternative governance modes thus relates to their abili-

ty to perform coordinating activities at least cost.

The three dimensions Williamson identifies are

- "(a) The frequency with which transactions recur,
- (b) The uncertainty to which transactions are subject, and
- (c) The degree to which transactions are supported by transaction specific investments" (1981b, p. 1546).

The problem posed by these dimensions (in particular (b) and (c)) stem from the nature of people, who have to reach the agreements and enforce and adapt them, and the nature of the environment in which these agreements, enforcements and adaptations take place. Firstly, people are "bounded rational" rather than hyperrational as is typically assumed of economic man. This term owes its origin to Herbert Simon and refers to the finite information processing capacity of people. While people are "intendedly" rational "they experience limits in formulating and solving complex problems and in processing (receiving, storing retrieving, transmitting) information" [Williamson 1981b, p. 1545].

People are also unreliable to a greater or lesser extent which is reflected in Williamson's concept of opportunism. For reasons of self-interest people may be led to make self disbelieved promises and threats. In Williamson's terms this is self interest seeking with guile.

It is the simultaneous existence of these two principles that causes transaction problems. If people were boundedly rational but completely trustworthy it would be possible to reach an agreement that the parties could rely on and if unanticipated events occurred people could be relied upon to act in good faith. Opportunism would also not be a serious problem if people were not subject to bounded rationality.

Problems of opportunism and bounded rationality would still not be a problem if there was no uncertainty about the future, if the problem of coordination was simple and not complex, and if competition among large numbers of

alternative buyers and sellers could be expected to control opportunistic behavior. But the future is uncertain and often competition is limited to small numbers of alternative sources of supply or demand. A small numbers situation may occur because scale and scope economies are large in relation to the size of the market and so only a few efficient firms can survive. But Williamson points out that even if a large numbers bargaining situation exists when a transaction is first negotiated this may be transformed into a small numbers situation when subsequent transactions have to be arranged. This occurs because the parties to a transaction become locked in to a particular relationship due to the transaction specific investments they may have made in reaching the original agreement or in carrying out its terms.

Of the three dimensions of transactions the issue of transaction specific investments is central to Williamson's argument. I will explore this idea and how it relates to earlier ideas in this paper concerning specialization and aggregation economies but before I do ~~to~~ let us see how Williamson matches governance structures to transactions based on his three dimensions. His conclusions are reflected in Figure 1. Two of his dimensions are used to classify transactions, i.e. frequency and transaction specificity of assets. The frequency of transactions is divided into two classes, occasional and recurrent. Discrete transactions are ignored partly because few transactions are thought to have this isolated characteristic and also because the differences between one time and occasional transactions are not thought to be significant (Williamson, 1979, p. 247). Transaction specific investments or assets are divided into three classes: nonspecific, i.e. they are not transaction specific; mixed, i.e. some assets are specific and others are not or assets can be used in other relationships but imperfectly; and idiosyncratic, i.e. highly transaction specific. Uncertainty is assumed to be at an intermediate level.

Classical market transacting is appropriate when assets are not transaction specific. Here a large numbers competitive situation exists and the effects of opportunism and bounded rationality are ameliorated because of the self policing aspects of competitive markets.

For occasional transactions involving transaction specific assets it is inefficient to construct a specialized governance structure because the set up cost could not be covered if transactions are only occasional. As a result trilateral governance is thought to be the most efficient mode. Here, third party assistance (arbitration) of some kind is sought in resolving disputes and evaluating performance. In a channel context the arbitrator may be a powerful firm or a trade association. (The relevance of arbitration to channels has been explored by Stern (1971)).

For recurrent transactions specialized governance structures can be developed (presumably because the scale of transacting is sufficient to make specialization efficient. This will be developed later.) For transactions in which human and physical assets are highly transaction specific the firm cannot by definition gain economies by using these assets to serve other users. Hence any (scale or scope) economies are limited to the size and frequency of the interfirm transactions for the one dyad. Vertical integration, i.e. unified government, is thus possible without foregoing any economies. Vertical integration results in the substitution of administrative coordination processes within the firm for market coordination. Such intra-firm coordination is considered to have advantages over the market in this case because the opportunistic behavior which may occur in this market situation is attenuated and communication processes are better within firms than between.

If assets are not highly transaction specific then opportunities of scale and scope economies may be available from using these assets in transactions

FIGURE 1
MATCHING GOVERNANCE STRUCTURES
WITH COMMERCIAL TRANSACTION

		Investment Characteristics		
		Nonspecific	Mixed	Idiosyncratic
frequency	Occasional	Market Governance (Classical Contracting)	Trilateral Governance (Neoclassical Contracting)	
	Recurrent		Bilateral Governance (Relational Contracting)	Unified Governance

Source: Williamson (1979, p. 253)

with other firms. Hence a firm may still choose to buy this input via the market from a seller employing these specialized assets because the seller could gain scale economies in using the assets to serve other buyers. If a firm vertically integrated it would not provide sufficient volume by itself to reap the same scale or scope economies. But what prevents such a vertically integrated firm from using its excess capacity in the specialized assets to serve other buyers? Considerations of opportunism may be the answer. If the other buyers requiring the output of the specialized asset, are the vertically integrated firm's competitors problems of opportunism arise, especially when combined with the problems of bounded rationality and uncertainty.

Given that vertical integration results in some loss of potential efficiencies, Williamson proposes a form of governance he terms obligational contracting:

" ... both partners have an incentive to sustain the relationship rather than to permit it to unravel, the object being to avoid the sacrifice of valued transaction-specific economies. On the other hand, each party appropriates a specific profit stream and cannot be expected to accede readily to any proposal to adapt the contract. What is needed, evidently, is some way for declaring admissible dimensions for adjustment such that flexibility is provided under terms in which both parties have confidence" (1979, p. 251).

Williamson argues that the spirit in which adaptations are effected is important. What he seems to have in mind is the kind of relationship that has been built up between firms as a result of trading over a long time. Each begins to have confidence and trust in the other party and there is a feeling of mutual respect. The relationship itself becomes valued. McGarry (1951) has pointed to this aspect of interfirm relations in his classic analysis of the contactual function in marketing. He stresses the importance of developing and maintaining relationships between firms even though they may not always be transacting business with each other. He argues that distrust and suspicion

between parties is broken down as a result of talking the same language, having confidence in each other's integrity and intentions, developing an intimate understanding of the other's background and status in the trade and intelligently evaluating the consequences of each other's action for the other [McGarry (1951), pp. 101-102].

What these arguments seem to imply is that over time the number and importance of transaction specific assets increases so that the parties are ever more tightly interdependent. Furthermore such relationships may become resistant to changes that threaten their continued existence which indicates a longer run efficiency consideration.

~~of domesticated markets is a related notion.~~

Franchising is a more concrete example of what might be termed obligational contracting and Klein (1980) has provided an interesting analysis of how contractual provisions could be designed to build in obligation for the franchisee and franchisor to honor their agreements when circumstances change. Carman (1982) has also pointed to the way in which the nature of the contractual provisions affects performance. Both writers point to the constraint of anti-trust laws which in their efforts to preserve competition, may prohibit some efficient coordination modes which are acceptable to both parties.

Williamson develops his classification scheme by examining the effect of increasing levels of uncertainty. This only affects transactions involving specialized factors. Greater uncertainty increases the scale of the coordination task. This may justify the expense of developing a more elaborate governance structure even for occasional transactions. But another alternative is to reduce the level of transaction specific assets. This may be accomplished by sacrificing "valued design features in favor of a more standardized good or service" [Williamson (1979), p. 254] where market governance would be possible.

Here a trade-off is proposed between the reduced satisfaction of buyers (or sellers) needs and a cheaper coordination method. The development of a more elaborate governance structure suggests that the loss due to reduced satisfaction plus the cheaper governance structure is outweighed by a higher level of satisfaction and a more expensive governance structure.

Williamson has developed his ideas beyond what has been presented here. In particular he has considered additional types of governance structures, especially alternative firm governance structures (1980a, 1980b, 1981b), "tested" his ideas against developments that have occurred in industrial organization both intrafirm and interfirm (1980b, 1981b) and attempted to relate his ideas to organization theory (1981a), and antitrust policy (1974, 1976, 1977, 1979).

Williamson's treatment of the coordination issue brings economic analysis and efficiency considerations to the forefront. He does not reject alternative explanations but sees much that is consistent with his ideas. Other explanations sometimes add extra detail. The use of "power" to explain changes in industrial organization is a good example of an alternative theory. In part we have been discussing power all along because it is the means by which agreements are reached and enforced between parties. Power is a central ingredient of any governance structure. The sources and uses of power vary with the nature of the transaction and with different governance structures. Within a firm a formal hierarchy of authority exists but in a market no such authority usually exists. In fact the type of power available may be an important dimension of governance structure.

Returning to power explanations of industrial organization and channel structure, Williamson (1981a) argues that power shifts among firms as a result of adopting different, more efficient, governance structures and patterns of divisions of activities. While entrenched power positions may slow down change

and shape the process of change power explanations of this sort only add detail. The forces of efficiency are more fundamental.

Williamson's conceptualization of transaction costs may be related to the economies of scale and scope. Transaction costs arise as a result of performing coordinating activities. Thus transactions costs are similar to the costs of performing any activity. Economies of scale and scope apply to coordinating activities as much as any other types of activity. First, coordinating activities are similar or complementary (to each other as well as other activities) in the same way other activities are. Second, combining coordinating activities that have shared inputs may result in economies scope. This is in essence what Williamson's concept of transaction specific investments leads to. Transactions are combined to fully utilize the capacity of shared specialized inputs. This is the principle of bulk transactions and represents a particular example of the economies of scope. The activities that are being combined are coordinating activities. But the coordinating activities associated with a transaction can be subdivided, for example, into contact contract and material work. There are similarities among these activities across transactions which provides an opportunity for specialized transactions to develop (Dixon and Wilkinson, 1982a, p. 12) where only part of the coordinating task is carried out. This is what transportation agencies, brokers, specialist negotiators, advertising agencies do. Of course we have to coordinate the specialist coordinators! Thus the activities of the advertising agency has to be coordinated with the activities of the firms it represents and the potential customers of these firms.

Thirdly, economies of scale arise when identical coordinating tasks are combined. This can be done by selling larger amounts to a particular customer at a point in time or developing a long term relationship where similar coordinating tasks are aggregated over time. Such aggregation creates opportuni-

ties for increasing the degree of specialization in the coordinating activities. Specialized personnel well verse in the requirements of a particular relationship may be fully employed but could not be justified for a discrete isolated transaction. A specialized transaction can also be used to establish a general rule under which all transactions of a given type can be routinized (Alderson and Martin, 1965, p. 122).

The frequency and uncertainty dimensions Williamson uses to characterize transactions are two dimensions of the scale of a transaction, reflecting the scale of particular coordinating activities. The third dimension, transaction specific assets, reflects the degree of similarity of a transaction to other transactions. The more transaction specific assets are the less similar the transaction in question is to other transactions. However, to the extent that these assets are specific only to particular component activities, the remaining activities still provide a basis for gaining scale or scope economies through aggregation.

The opportunity for more efficient patterns of specialization, including the use of superior techniques of communication and control, underlie the economies of scale and scope in performing coordinating activities. The reasons for specialization resulting in efficiency gains were discussed above in terms of production and marketing activities. The same reasons apply here and so they will not be repeated. However, an interesting consequence of specialization in coordinating activities deserves mention. Specialization in coordinating activities is accompanied by the need for coordinating the specialist coordinators. As a result different levels of coordinating activities and coordinators may be envisaged varying in their "distance" from the primary activities they are designed to coordinate. Within a firm this is reflected in the number of levels in the hierarchy of authority. In a channel this is reflected in the number of

interrelated specialist transactions that must take place to link producers and consumers (Dixon and Wilkinson, 1982a, p. 12). With increasing "distance" between coordinators and the primary activities problems of "control loss" may be envisaged (Morris and Mueller (1980), p. 37).

Alternative governance structures represent alternative modes for performing coordinating activities each embodying a particular pattern of specialization of activities. The problem is to find the least cost such pattern of specialization for performing the coordination activities required in a particular situation.

We have seen that Williamson's analysis helps us to understand why different methods of coordination (governance structures) exist at different times and places and for different products and services. But can they explain why different governance structures exist at the same time for the same product? In part this is accounted for by the fact that the same material product is sold to meet different requirements in different market segments and so the coordinating activities to be performed vary, even though the same material product is involved. But can we justify different channel governance structures for the same product performing the same functions to satisfy the same requirements for the same segments!

The governance structures in the channels for petroleum products seem to be an example of this. They are coordinated in three main ways. Some have company owned petrol stations using salaried employees, some have leased stations and others have independent dealers. Carman (1982) points out that "many petroleum marketers have discovered that leased (essentially franchised) stations were more efficient than either company owned stations or independent dealers" (p. 23). He gives reasons for this, which may be understood in Williamson's terms as attenuating opportunism and the effects of bounded rationality more efficient-

ly. What is of interest here is that petrol companies continue to use all three types of governance structures. How is this to be explained? Some firms may be slow to change, or have not yet discovered the efficiency of leased stations (assuming Carman's analysis is correct). Also, given a possible tradeoff between coordinating efficiency and operational efficiency more than one system may be equally efficient but reflect a different mix of coordinating and operational costs. Maybe, but an additional reason lies in the heterogeneity of potential dealers (i.e. a specialist input). Governance structures have to be designed to perform the coordination activities required efficiently. Some dealers may be more independently minded, or more powerful -- in general have different needs to other dealers. Hence the governance structure has to be designed with the needs and abilities of dealers (or any intermediary) in mind. Furthermore alternative governance structures may be valued in their own right but not identically by different dealers.

SUMMARY AND CONCLUSIONS

A theory of channel structure can be built based on the economic principles of scope and scale and the underlying economies resulting from specialization. All economic activities including coordinating activities are subject to these principles. As a result coordination is an integral part of the economic theory of channel structure not a separate area of inquiry with its own theories, measures and research methods. The relationship between political and economy issues can be handled directly rather than relying on empirically derived measures of association where the causal relationship is uncertain.

The structure of marketing channels is seen to stem from a simultaneous attempt to achieve efficiency in the performance of coordinating, marketing, and

production activities. Furthermore, the efficiency with which coordinating activities are performed affects the efficiency with which other activities are performed and the patterns of specialization adopted to achieve efficient performance affects the nature of the coordination task.

The reason why firms are not able to internalize all economies through an appropriate pattern of expansion stems from the relative efficiency of the market versus the firm for achieving efficiency in the performance of coordinating marketing and production tasks. Williamson assumes markets are better able to achieve aggregation economies and coordination is efficient if competitive market conditions exist. Firms have certain advantages over markets in performing coordinating activities, particularly when problems of opportunism, small numbers bargaining and uncertainty obtain. Members of a firm develop a greater group orientation than members of a market linked channel. This reduces opportunistic behavior. Furthermore, if conflict does result it can be settled more efficiently within a firm. Communication systems within firms are also superior to that in markets which helps to ameliorate the effects of bounded rationality, especially when uncertainty exists [Williamson (1975), p. 29-30]. But firms also suffer from internal problems of opportunism which may result in goal distortions of various kinds, including a bias towards internal procurement and expansion and a resistance to change. Communication distortions within the firm support these biases [Williamson (1975), pp. 118-126]. Furthermore, bounded rationality limits the ability of managers to achieve effective and efficient coordination as the firm's size increases. Increases in size also result in problems of bureaucracy including subgoal pursuit and the distortion of incentives.

These considerations imply that as conditions change, in terms of the characteristics of the market (its size, predictability) and/or in terms of the

technologies of production and coordination, the most efficient (normative) channel structure alters. The actual structure that emerges will reflect the effect of these economic forces along with considerations of the costs of change. Additional constraints will also affect the structure that emerges and the process by which it is achieved. Existing power relationships in the channel shape the pattern of change. Legal constraints may reinforce the economic forces or prohibit certain structures on the basis of other considerations such as desire to preserve competition as an end in itself, the desire to protect small business or the desire to appease powerful lobby groups.

Obviously much more work needs to be done to develop the analysis into a more complete, rigorous and testable theory of channel structure. But hopefully the basis exists for such a development.

Sandler and Cauley (1980) have proposed a way of formalizing Williamson's analysis in both a static and dynamic framework, which may provide a useful means of working towards a more rigorous and testable theory. Williamson's ideas have been used by a number of marketing scholars but their significance has not been fully developed and related to existing theories. Etgar (1976) used Williamson's ideas to help him compare the efficiency of alternative channels for insurance. More recently he and Izraeli have compared the economic and behavioral approaches to the coordination problem, stressing the need for integration (Etgar and Izraeli (1982)). The work being done at Uppsala on "relational efficiency" is also relevant and largely ignored by U.S. scholars [Jansson (1982), Wiedersheim-Paul (1982)]. Roehl (1982) used Williamson's ideas to explain the existence of Japanese general trading companies. Lastly, Bhasin and Stern (1982) have emphasized the relevance and importance of transaction cost analysis to channels.

The analysis presented here underscores the importance of regarding

the channel not as one element of marketing strategy -- the fourth P -- but as the vehicle through which the entire strategy of the firm is carried out [Bucklin (1970), Dixon and Wilkinson (1982b)]. At the moment our theories of power and conflict do not allow us to offer great insights to management in managing their channel relationships. However research which examines the coordinating activities in a systematic and detailed way and explores opportunities for economies of scale and scope in performing these activities can change this. In particular, if we are able to design improved governance structures with more efficient patterns of specialization and are able to match these to the characteristics of interfirm relations (and intra firm relations), this will be a significant advance. Etgar (1982b) has started to examine in detail the process of coordination in particular channels. Research in Sweden, usually characterized as industrial marketing, has resulted in similar in depth studies [Jansson (1982), Mattsson (1979)]. These are important first steps but more of this type of work is needed. To date too much effort has been directed towards broad brush empirical studies of interfirm relations in channels based on ad hoc theorizing. A more fully developed analytical basis for the empirical work is required. This paper is intended as a step in that direction.

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Trade Flows in Australia, 1974-75:
An Assessment of Structural Change

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Summary: The paper provides an estimate of the 1974-75 trade flows table for Australia and compares this with the 1968-69 table and with the Cox et al table for the United States in 1947. Comparisons are made both directly from the three tables, and indirectly in terms of an underlying set of structural coefficients. Significant changes are noted in Australian flows, reflecting the changing market power of the retail sector.

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Trade Flows in Australia, 1974-75:
An Assessment of Structural Change

1. Introduction

1.1 In an earlier paper (Layton 1981a) a trade flows model was estimated for Australia for the year 1968-69 and compared with a similar model estimated by Cox and Goodman (1965) for the United States in 1947. The comparison pointed to a high degree of similarity between the two countries in the allocation of channel flows from originating sectors (farmers, extraction industries, manufacturing) to end use sectors, despite the difference in time involved. For example, the percentage of total sales accounted for by distributive trade sectors was 39.7% in Australia and 42.3% in the United States. In Australia, \$1 of final demand generated \$2.90 of total system sales; in the United States, the corresponding figure was \$2.81. In Australia, the farm sector sold 53.3% of output through wholesale institutions (including a wide variety of agricultural boards); in the United States wholesalers accounted for 52.6% of agricultural output.

The differences that were noted could often be explained in terms of the differing stages of marketing system evolution in the two countries at the two points in time. Thus for example the broad trend away from general wholesalers in both countries was reflected in the larger role wholesalers played in the United States in 1947.

In this way, then, using the trade flows table in conjunction with an input-output table, direct comparisons can be made of marketing system flows between two countries and some conclusions drawn regarding comparative structures. Given the highly aggregated nature of the available data, these comparisons are at this time limited in depth and the trade flows model is perhaps most relevant in providing a conceptual framework within which detailed comparisons could be made, given official statistics of sufficient detail.

The earlier comparison between the United States in 1947 and Australia in 1968-69 was also limited by an inability to estimate an appropriate set of structural coefficients for the United States in 1947. As was pointed out (Layton, 1981b) the relationship between an input output table and a trade-flows table can be expressed in relatively simple terms, where each element in the trade flows table is a linear combination of all the elements in the input output table. The coefficients of these linking equations summarize much of the relevant deeper structure of the trade flows table, and it would have been interesting to compare these coefficients for the two economies concerned. In the absence of an appropriate (in terms of sector construction) input output table for the United States in 1947, this comparison could not be made. This paper illustrates the possibilities provided by trade flows modelling for structural comparisons over time, using Australian data for the purpose.

The paper is concerned first with an estimation of the 1974-75 trade flows table for Australia, and then with comparing that table both directly and indirectly (i.e. using the structural coefficients approach) with the Australian table for 1968-69. In order to draw all the available data together some comparisons will also be made with the United States 1947 table. As before, the present comparisons are limited by the highly aggregated character of the data available and are in this sense indicative only of the longer term possibilities offered by the methodology.

2. Estimation of the trade flows table for 1974-75

2.1 The approach adopted was similar to that used for the 1968-69 table, the major difference emerging from the lack of a fully integrated economic census for 1974-75. In 1968-69, the Australian Bureau of Statistics conducted a fully integrated census of manufacturing, wholesaling and retailing. While some parts of the manufacturing and retailing censuses were repeated in the early 1970's, there has been no repetition of the wholesale census or survey. The total value of sales by the wholesale sector had therefore to be estimated indirectly using employment statistics, consistency checks with the 1968-69 censuses, the input output statistics for 1974-75 and other data from industry experience. The final estimate is a composite of estimates made in several different ways, all of which were in the event very similar as to the final result.

Another, perhaps less significant difficulty, arose from the approach the Australian Bureau of Statistics (ABS) adopted to the publication of the 1974-75 input output table. For 1968-69 the ABS published Australian input output tables at basic values and purchaser prices, both being industry by industry tables with indirect allocation of competing imports. With this data it was possible to classify each set of inter-sectoral transactions into direct and indirect sales. However, for 1974-75, the Australian input output

table at purchasers' prices was not published in a form corresponding directly with the table at basic values (the latter being industry by industry with indirect allocation of competing imports). Instead, the ABS provided a matrix of mark-ups corresponding to an absorption matrix in which inputs are allocated by industry and outputs by commodity. The change, while important, was not as troublesome as expected due to the highly aggregated nature of the tables that were finally to be estimated. Some relative inaccuracies (compared to the 1968-69 procedure) remain, but appear to be insignificant.

The data available presented, in addition to the two issues just noted, a range of other problems often stemming from seemingly arbitrary decisions as to coverage and definition made by the ABS in the years of interest. The retail data for 1974-75 excluded retail sales in two States (the ACT and the Northern Territory), several important sectors (bread and milk vendors, footwear repair, cinemas, laundries and dry cleaning); neither did it provide information on purchase values, stock changes, or capital expenditure, all of which had been available in 1968-69. These gaps were filled by data collected at closely related points in time, and by assuming that coverage gaps in 1974-75 were proportional to their size in 1968-69. Whenever possible, estimates were checked using alternative sets of assumptions and outside enquiry. Full details of the estimation procedure can be found in Layton and Ahmad (1982).

3. Trade flows in 1974-75

3.1 A final estimate of trade flows in the Australian economy in 1974-75 is provided in Table 1 in a form which corresponds to the 1968-69 table in Layton (1981). To assist comparison the trade flows table for 1968-69 is set out in Table 2, and the 1974-75 input output table is given in Table 3.

Table 1

Table 2

Table 3

3.2 Looking at the two Australian tables there has been a marked shift in the patterns of distribution. The percentage of sales by manufacturers to intermediate sectors that went through wholesalers fell from 47.3% to 43.8%, and the percentage of these sales going direct to retailers rose from 18.2% to 28.1%. To a considerable extent this reflects the increased market power of the large chains, whose share, for example, of national grocery sales rose from 45% in 1966 to 60% in 1976 and the number of major accounts controlling approximately 75% of the wholesale grocery business fell from 49 in 1966 to 21 in 1976.

In terms of all transactions amongst intermediate sector industries, the position of the wholesaler however changed only slightly, falling from 34.7% of the intermediate sector sales in 1968-69 to 34.2% in 1974-75. The percentage of all intermediate sector sales that was handled directly (i.e. without the use of wholesalers or retailers) fell from 27.8%

to 25.8%. A more detailed analysis of intermediate sector transactions is shown in Table 4; from this it is interesting to note that the relative importance of industrial market sales for the wholesaler has increased from 17.1% to 19.5%. The data as a whole suggest a shift in the role of the wholesaler from involvement in consumer products towards greater involvement in industrial markets. This move reflects not only the market power of the large retail chains and their resulting ability to deal directly with suppliers, but also the increased cost of personal selling experienced by many manufacturers, leading to greater interest on their part in the use of distributors.

Table 4

3.3 A further set of comparisons that looks not only at the two Australian results, but also adds the 1947 estimates for the United States, is provided in Tables 5 and 6.

Table 5 is concerned with the percentage distribution of purchases for selected sectors; and Table 6 with the percentage distribution of sales.

Table 5

Table 6

The tables together point to the possibility of several interesting trends. From Table 5, for example, while manufacturers overall are tending to use distributors rather more, this is not the case with rural sector purchases where an increasing percentage of purchases are being made directly from the manufacturer (rising from 11.5% in 1968-69 to 19.0%

in 1974-75). Both figures stand in marked contrast to the U.S. estimate of 2.7% in 1947, and taken in conjunction with other changes in rural sector purchases suggest a degree of turbulence in rural input distribution patterns. Some care, however, is necessary as the patterns of rural expenditure will, amongst other things, be affected by seasonal success or failure.

From Table 6, the increasing importance of the agricultural marketing authorities is evident, with rural sales to wholesalers rising from 53.3% to 63.2% of all rural sector sales. The changes noted earlier in channel flows for manufactured goods can be seen in broader content. It is apparent that the Australian pattern of marketing system flows is moving steadily away from the United States pattern observed for 1947. Although the data is lacking, it seems likely that current United States flows would have moved in the same direction, although less strongly as the degree of concentration in retailing is rather less than in Australia.

3.4 A final comparison, relevant at this stage, concerns the total volume of transactions accounted for within the system. In the United States in 1947, one dollar of final demand generated \$2.81 of total system transaction; in Australia in 1968-69 and 1974-75, the corresponding figures were \$2.90 and \$2.72. This raises the possibility that

with increasing maturity of a marketing system, the ratio of total system sales to sales to final demand falls.

While this would not be surprising, given the evidence as to the shortening of the channels of distribution that tend to occur as communication becomes more effective, what is perhaps of greater interest is the observation that the ratio changes slowly despite what often appears to be widespread changes in the total system.

4. Comparison of Structural Coefficients

4.1 In an earlier paper, Layton (1981b), the relationship between an input output table (in basic values) and a trade flows table was discussed in some detail. Following a brief review of this relationship, a comparison will be made of estimates of the structural coefficients for 1968-69 and 1974-75.

5.3 The structure of the input output and corresponding trade flow table, together with the notation to be used, is set out in Table 7 below.

Table 7.

In general, each element z_{ij} of Z can be expressed as a linear combination of the elements x_{ij} of X , the exact nature of the linear equation set depending on the underlying channel structure and the definitions used for each sector. Specifically, the following set of equations was used to link the two matrices for the Australian marketing system.

$$(1) \quad z_{ij} = \Delta_{Yj} x_{ij} \quad i \in P; j \in P, D$$

$$(2) \quad z_{Mj} = \Delta_{Mj} x_{Mj} \quad j \in P, D$$

$$(3) \quad z_{Hj} = \Delta_{Hj} x_{Hj} \quad j \in P, D$$

$$(4) \quad z_{ij} = \beta_{ij} \left\{ Q_i - \sum_{k \in D} z_{ik} - \sum_{k \in P} z_{ik} \right\} \quad i \in P, M; j \in T$$

$$(5) \quad z_{ij} = \gamma_{ij} \left\{ Q_j - v_j - z_{Mj} - z_{Hj} - \sum_{k \in P} z_{kj} \right\} \quad i \in T; j \in P$$

$$(6) \quad z_{Wj} = \lambda_{Wj} \left\{ \sum_{i \in P} (1 - \epsilon_{iW}) z_{iW} + z_{MW} + z_{HW} - \sum_{j \in P} (z_{Wj} - x_{Wj} + z_{RJ} - x_{Rj}) + x_{WD} \right\} \quad j \in D$$

$$(7) \quad z_{WW} = \lambda_{WW} \left\{ \sum_{i \in P} (1 - \epsilon_{iW}) + z_{MW} + z_{HW} + z_{HW} \right\}$$

$$(8) \quad z_{WR} = (1 - \lambda_{WD}) \left\{ \sum_{i \in P} (1 - \epsilon_{iW}) z_{iW} + z_{MW} + z_{HW} - \sum_{j \in P} (z_{Wj} - x_{Wj}) + x_{WD} \right\} + \lambda_{WD} \left\{ \sum_{j \in P} (z_{RJ} - x_{Rj}) + x_{WR} \right\}$$

$$(9) \quad z_{HR} = -\lambda_{HR} (Q_D - x_{HD} - x_{MD})$$

$$(10) \quad R_I = z_{WR} + z_{HR} + \sum_{i \in P} z_{iR}$$

$$(11) \quad z_{RD} = (1 + \lambda_t) \left\{ R_I - \left[\lambda_{RW} R_I + \sum_{i \in P} \epsilon_{iR} z_{iR} + \sum_{j \in P} (z_{Rj} - x_{Rj}) \right] + x_{RD} \right\}$$

$$(12) \quad z_{RR} = \lambda_{RR} R_I$$

$$(13) \quad z_{RW} = \lambda_{RW} R_I + x_{RW}$$

The first three equations are concerned with the estimation of direct sales from producers to producers and the Δ_{ij} are found directly from a comparison of corresponding entries in the trade flows and input output tables. The remaining equations detail the allocation of the indirect flows amongst the various sectors. Specifically, equation (4) allocates indirect sales by producers to two trade sectors. Equation (5) splits purchases by producers into purchases from wholesalers and retailers. Equation (6) takes the total flow through wholesalers, adjusts for sales to producers and retailers and adds the appropriate margin, to get wholesale sales to final demand; this is then split into the final demand categories. Wholesale sales to retailers (equation (8)) are built up from sales through retailers to final demand, and sales through retailer to producer sectors. Retail sales to final demand, Equation (11) is derived from a balance of flows

into and out of the retail sector, before margins are taken into account, and is adjusted for sales taxes. Taken as a whole, these equations define the structure of the marketing system under study - changes in parameter values or changes in the form of the equations will both be regarded as resulting from structural change.

It will be apparent that given an input output table (i.e. the x_{ij}) and estimates for the parameters of the above equations, it is possible to estimate a trade flows table. In particular, it can be seen that the effects of a change in the final demand vector and changes in the structural coefficients (i.e. parameters of equations (1) through (13)) can be examined in terms of both production and distribution system inputs, the former coming from the input output table and the latter from the trade flows table.

4.3. The two sets of parameter estimates are shown in Tables 8 through 12. From Table 8, the changing proportion of direct sales commented on earlier can be seen. In particular, direct sales by manufacturers to manufacturers fell from 0.73 to 0.53 of total sales of manufacturers to manufacturers;

Table 8.

for manufacturing sales to other sectors (including rural), direct sales are more important than in 1968-69. For one sector, transport, only an overall estimate of direct sales could be made; this was then assumed to apply to each sector.

From Table 9, direct sales to final private expenditure are less common.

Table 9

Table 10 is concerned with the split of indirect sales amongst wholesalers and retailers, with the most noteworthy change being that associated with manufacturers. Table 11 looks at indirect purchases; perhaps the biggest change here being the greater use of wholesalers/distributors by rural sector purchases (for indirect purchases only). Little change is noted in the retained purchases by wholesalers or retailers (Table 12).

Table 10

Table 11

Table 12

The remaining parameters are set out below:

	<u>1968-69</u>	<u>1974-75</u>
λ_{WW}	0.3316	0.3857
λ_{WD}	0.5297	0.7416
λ_{RW}	0.0120	0.0085
λ_{RR}	0.0355	0.0275
λ_{HR}	0.0218	0.0188
λ_t	0.1056	0.1089

As can be seen, with the exception of λ_{WD} , there has been little change between the two years. The big jump in λ_{WD} stems largely from wholesaler (marketing authority) sales to export and reflects in part at least a boom in livestock exports in 1974-75.

4.4 Before concluding this section, it is of interest to ask what would have happened to flows through the marketing channels (in their highly aggregated form) if the structure had remained unchanged from 1968-69. An estimate of the trade flows table that takes account of changes in the vector of total final demand, but keeps structure constant, is set out in Table 13. From this table was derived the pattern of channel flows shown in the last two columns of Table 4. The shift in the percentage distribution of intermediate and final demand sales is set out below in Table 14.

Table 13

Table 14

From this table it is apparent that a simple comparison does to some extent blur the effects of structural change. In a number of instances the two components move in opposite directions (e.g. $P \rightarrow P$, $W \rightarrow D$) and the impact of structural change is rather greater than would otherwise appear. The effect is most pronounced in sales to final demand (including final expenditure and exports) where there appears to be a decline in direct sales by producers and a significant rise in wholesale activity (largely related to export) and retail sales.

5. Conclusion

The primary purpose of this paper has been to illustrate the use of trade flows modelling in the assessment of change in marketing systems. While the data allows only for a high degree of aggregation, some important changes can be seen, particularly in sales from manufacturers to retailers. These changes have been often noted in discussion of distribution patterns in Australia and are not therefore unexpected in the present setting. What is perhaps more significant is that, although a great deal of importance has been allocated to these shifts in retailing (and particularly to the increasing concentration of market power) the overall change in macro flows is not great. This suggests that macro marketing systems are indeed highly robust social structures; and reminds us that the dramatic changes that can occur are often only a small part of the total volume of transaction that are handled by the system. Trade flows modelling even in its present highly aggregated form, may be helpful in keeping the total system in perspective.

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Table 1 : Flow of Goods and Services in Australia 1974-75

\$m

SECTOR	Agric.	Mining	Manuf.	Build.	Transp.	Services	Public	Wholesale	Retail	Interm. Total
Agriculture	224.4	0.1	1,591.7	-	-	1.0	2.1	3,818.7	166.0	5,804.0
Mining	-	226.2	1,292.8	2.1	6.9	0.4	2.5	2,076.2	-	3,607.1
Manuf.	391.3	170.9	7,759.3	1,292.1	530.8	1,227.9	480.2	18,367.9	11,764.3	41,984.7
Buildings	51.2	34.0	196.2	45.0	228.0	705.2	366.6	31.9	24.4	1,682.5
Transport	57.2	63.6	517.0	150.9	84.4	273.1	98.4	2,889.6	274.6	4,408.8
Services	83.5	124.6	1,837.6	305.3	457.3	6,837.5	633.1	1,314.1	1,351.9	12,945.2
Public	28.2	12.7	7.1	0.4	11.0	394.7	19.7	0.4	0.7	474.9
Wholesale	852.5	831.1	13,206.9	3,915.6	632.2	1,547.8	736.7	11,287.0	5,073.9	38,083.7
Retail	275.1	59.7	262.6	119.1	504.4	356.5	94.1	265.3	535.3	2,472.1
Intermediate Total	1,963.4	1,522.9	26,671.2	5,830.5	2,455.0	11,344.1	2,433.4	40,051.1	19,191.1	111,462.7
Wages and Salaries	769.4	815.4	9,758.4	3,509.4	2,299.1	5,417.0	7,928.1	2,648.0	2,901.8	36,046.6
Gross operat. Surplus	2,901.1	1,581.4	3,296.2	1,255.6	582.1	5,682.8	573.2	1,660.7	1,416.5	18,949.6
Taxes	310.5	48.8	541.8	178.2	394.3	1,314.3	171.7	577.0	2,298.8	5,835.4
Sales by Final Buyers	-	0.5	25.5	-	-	0.8	1.1	95.3	1,280.1	1,403.3
Imports	99.9	49.0	6,113.3	0.5	740.5	320.7	93.8	2,684.5	8.2	10,110.4
Primary input Total	4,080.9	2,495.1	19,735.2	4,943.7	4,016.0	12,735.6	8,767.9	7,665.5	7,905.4	72,345.3
TOTAL	6,044.3	4,018.0	46,406.4	10,774.2	6,471.0	24,079.7	11,201.1	47,716.6	27,096.5	183,807.8

Table 1 : Flow of Goods and Services in Australia 1974-75 (contd.)

\$m

SECTOR	Final Exp. Private	Final Exp. Govt.	Fixed Exp. Private	Fixed Exp. Govt.	Increase in Stocks	Exports	Final Demand Total	TOTAL
Agriculture	35.6	73.9	-	33.2	97.3	.3	240.3	6,044.3
Mining	0.2	17.3	-	-	39.7	353.7	410.9	4,018.0
Manuf.	707.2	30.0	378.9	350.8	106.6	2,848.2	4,421.7	46,406.4
Buildings	-	-	4,485.7	4,606.0	-	-	9,091.7	10,774.2
Transport	1,144.0	57.3	-	-	-	860.9	2,062.2	6,471.0
Services	10,133.1	353.7	460.2	44.6	0.3	142.6	11,134.5	24,079.7
Public	2,018.9	8,668.5	0.1	0.1	-	38.6	10,726.2	11,201.1
Wholesale	374.1	-	2,857.9	562.2	584.8	5,253.9	9,632.9	47,716.6
Retail	23,363.7	-	1,036.1	-	224.6	-	24,624.4	27,096.5
Intermediate Total	37,776.8	9,200.7	9,218.9	5,596.9	1,053.3	9,498.2	72,344.8	183,807.8
Wages and Salaries	-	-	-	-	-	-	-	36,046.6
Gross operat. Surplus	-	-	-	-	-	-	-	18,949.6
Taxes	4.6	-	26.5	-12.2	13.0	14.9	46.8	5,882.2
Sales by Final Buyers	-1,163.6	-	-258.6	-39.3	6.3	51.9	-1,403.3	-
Imports	242.9	-	-	-	27.5	383.5	653.9	10,764.3
Primary input Total	-916.1	-	-232.1	-51.5	46.8	450.3	-702.6	71,642.7
TOTAL	36,860.7	9,200.7	8,986.8	5,545.4	1,100.1	9,948.5	71,642.2	255,450.5

Table 2: Trade Flow Table - Flow of Goods and Services in Australia, 1968-69
(\$m)

Supplying Sectors	Intermediate Use										Total Inter
	Rural	Ext.	Manuf	Build	Service	Public	Transp	Whole	Retail		
Rural	257.9	-	1241.5	-	0.1	0.2	7.6	2031.5	91.7		3630.5
Extractive	0.1	135.4	293.5	-	-	0.3	0.5	810.8	-		1240.6
Manuf	155.7	60.5	5280.4	480.2	392.0	518.6	250.5	9775.3	3775.1		20688.3
Build	43.3	9.2	139.1	71.0	289.9	216.7	119.3	16.3	13.3		918.1
Service	60.4	37.1	1009.0	132.7	3171.9	261.2	182.0	501.2	507.7		5863.2
Public	4.9	0.2	-	-	101.3	13.1	3.9	-	-		123.4
Transp	22.0	8.0	185.0	47.0	18.9	20.3	24.3	1438.7	97.3		1921.3
Whole	451.0	423.6	4872.6	2016.8	1181.1	255.7	177.1	4995.7	4678.9		19052.5
Retail	285.6	39.6	183.2	101.3	189.3	47.8	183.7	163.5	342.5		1536.5
Total Inter	1280.9	713.6	13204.3	2849.0	5404.5	1333.9	948.9	19733.0	9506.5		54974.6
Wages	403.0	319.8	4324.4	1463.0	1907.2	2455.7	877.3	1088.7	1190.5		14029.6
Profits	1936.0	344.4	2811.2	524.0	2434.7	293.0	599.0	982.5	778.7		10703.5
Taxes	123.7	5.6	187.4	79.9	501.6	46.0	118.4	141.0	1125.5		2329.1
Imports	67.2	23.8	2515.6	-	132.9	109.9	335.5	1188.6	-		4373.5
Cons. Sales	-	-	19.7	-	0.4	0.6	-	73.4	662.2		756.3
Primary Inputs	2529.9	693.6	9858.3	2066.9	4976.8	2905.2	1930.2	3474.2	3756.9		32192.0
Total	3810.8	1407.2	23062.6	4915.9	10381.3	4239.1	2879.1	23207.2	13263.4		87166.6

Table 2: Trade Flow Table - Flow of Goods and Services in Australia, 1968-69 (continued)

Supplying Sectors	Final Use					Exports	Total Final Demand	Total
	Priv. Cons.	Govt. Cons.	Priv. Cap.	Govt. Cap.	Δ Stocks			
Rural	43.8	12.4	-	-	117.8	6.3	180.3	3810.8
Extractive	0.2	11.5	24.3	-	3.5	127.1	166.6	1407.2
Manuf	492.7	25.1	163.5	518.6	53.9	1120.5	2374.5	23062.6
Building	-	-	2283.6	1714.2	-	-	3997.8	4915.9
Service	3960.3	104.0	204.8	198.5	-	50.5	4518.1	10381.3
Public	886.6	3184.4	-	-	-	44.7	4115.7	4239.1
Transp	593.8	-	-	-	-	363.8	957.6	2879.1
Wholesale	186.0	-	1476.5	100.0	397.9	1994.3	4154.7	23207.2
Retail	10894.5	-	722.6	-	109.8	-	11726.9	13263.4
Total Inter	17057.9	3337.4	4875.3	2531.3	682.9	3707.2	32192.0	87166.6
Wages	-	-	-	-	-	-	-	14029.6
Profits	-	-	-	-	-	-	-	10703.5
Taxes	9.0	-	6.3	-0.1	-8.5	5.3	12.0	2341.1
Imports	73.1	-	-	-	0.8	182.5	256.4	4629.9
Cons. Sales	-654.6	-	-116.7	-2.9	9.0	8.9	-756.3	-
Primary Inputs	-572.5	-	-110.4	-3.0	1.3	196.7	-487.9	31704.1
Total	16485.4	3337.4	4764.9	2528.3	684.2	3903.8	31704.1	

Table 3: Australian Input-Output Table 1974-75 (indirect allocation of inputs)

SECTOR	Basic values (industry x industry) \$m										Interm. Total
	Agric.	Mining	Manuf.	Build.	Transp.	Services	Public	Wholesale	Retail	Interm. Total	
Agriculture	419.1	7.4	2,833.8	14.1	6.4	18.9	3.1	-	-	3,302.5	
Mining	2.0	293.8	1,927.6	98.2	14.0	8.4	4.3	1.7	3.4	2,353.1	
Manuf.	962.3	465.6	14,651.6	4,365.1	1,137.2	2,411.9	1,024.9	530.1	785.9	26,334.6	
Buildings	51.2	34.0	196.2	45.0	228.0	705.2	366.6	31.9	24.4	1,682.5	
Transport	127.6	142.1	1,154.1	336.9	188.5	609.8	219.7	139.0	56.0	2,973.8	
Services	83.5	124.6	1,837.6	305.3	457.3	6,837.5	633.1	1,314.1	1,351.9	12,945.2	
Public	28.2	12.7	7.1	0.4	11.0	394.7	19.7	0.4	0.7	474.9	
Wholesale	186.3	55.5	1,551.3	620.7	223.7	223.7	123.5	213.8	205.3	3,404.1	
Retail	103.3	22.4	98.6	44.7	189.3	133.8	35.4	99.6	200.9	928.0	
Intermediate Total	1,963.5	1,158.1	24,257.9	5,850.4	2,450.4	11,344.3	2,430.3	2,330.6	2,628.5	54,399.0	
Wages and Salaries	769.4	815.4	9,758.4	3,509.4	2,299.1	5,417.0	7,928.1	2,648.0	2,901.8	36,046.6	
Gross operat. Surplus	2,901.1	1,581.4	3,296.2	1,255.6	582.1	5,682.8	573.2	1,660.7	1,416.5	18,949.6	
Taxes	310.5	48.8	541.8	158.2	394.3	1,314.3	171.5	274.6	229.8	3,463.8	
Sales by Final Buyers	-	0.5	120.8	-	-	0.8	1.1	-	-	123.2	
Imports	99.9	413.9	8,432.9	0.5	740.5	320.7	93.8	-	8.2	10,110.4	
Primary input Total	4,080.9	2,860.0	22,150.1	4,943.7	4,016.0	12,735.6	8,767.7	4,583.3	4,556.3	68,693.6	
TOTAL	6,044.4	4,018.1	46,408.0	10,774.1	6,471.4	24,079.9	11,198.0	6,913.9	7,184.8	123,092.6	

Source: ABS, Australian Input-Output Tables 1974-75 Table 8, pp.224-247.

Table 3: Australian Input-Output Table 1974-75 (contd.)

\$m

SECTOR	Final Exp. Private	Final Exp. Govt.	Fixed Exp. Private	Fixed Exp. Govt.	Income Increases	Exports	Final Demand Total	TOTAL
Agriculture	626.3	73.9	-	33.2	224.7	1,783.7	2,741.8	6,044.3
Mining	14.7	17.3	19.4	32.7	72.9	1,507.9	1,664.9	4,018.0
Manuf.	11,534.4	30.7	3,170.3	860.3	530.3	3,944.4	20,070.4	46,406.4
Buildings	-	-	4,485.7	4,606.0	-	-	9,091.7	10,774.2
Transport	1,674.3	56.2	148.2	22.8	87.7	1,507.9	3,497.2	6,471.0
Services	10,133.1	353.7	460.2	44.6	0.3	142.6	11,134.5	24,079.7
Public	2,018.9	8,668.5	0.1	0.1	-	38.6	10,726.2	11,201.1
Wholesale	2,209.4	-	604.9	84.9	136.0	474.9	3,510.0	6,914.1
Retail	6,110.6	-	144.7	-	0.2	1.5	6,257.0	7,185.0
Intermediate	-	-	-	-	-	-	-	-
Total	34,321.7	9,200.3	9,033.5	5,684.6	1,052.1	9,401.5	68,693.7	123,092.7
Wages and Salaries	-	-	-	-	-	-	-	36,046.6
Gross operat. Surplus	-	-	-	-	-	-	-	18,949.6
Taxes	2,073.6	-	230.3	-12.2	13.0	113.5	2,418.2	5,881.9
Sales by Final Buyers	116.5	-	-258.6	-39.4	6.3	51.9	-123.3	-
Imports	242.9	-	5.0	-	27.5	383.5	658.9	10,769.2
Primary input Total	2,433.0	-	-23.3	-51.6	46.8	548.9	2,953.8	71,647.4
TOTAL	36,754.7	9,200.3	9,010.2	5,633.0	1,005.3	8,852.6	5,907.6	194,740.1

Table 4.

Channel Flows - Intermediate Sector Transactions

<u>Flow</u>	1968-69		1974-75		1974-75 ^(a)	
	\$m	%	\$m	%	\$m	%
<u>Intermediate</u>						
P → P	15.3	27.8	28.8	25.8	30.7	28.1
P → W	14.8	26.9	28.5	25.6	28.3	25.9
P → R	4.4	8.0	13.6	12.2	9.2	8.4
W → P	9.4	17.1	21.7	19.5	19.4	17.8
W → W	5.0	9.1	11.3	10.1	9.7	8.9
W → R	4.7	8.5	5.1	4.5	8.7	8.0
R → P	1.0	1.8	1.7	1.5	2.1	1.9
R → W	0.1	0.2	0.3	0.3	0.3	0.3
R → R	0.3	0.5	0.5	0.5	0.7	0.7
	<u>55.0</u>	<u>100.0</u>	<u>111.5</u>	<u>100.0</u>	<u>109.1</u>	<u>100.0</u>
<u>Final Demand</u>						
P → D	16.3	50.6	38.1	52.7	40.7	56.1
W → D	4.2	13.0	9.6	13.3	7.9	10.9
R → D	11.7	36.4	24.6	34.0	24.0	33.0
	<u>32.2</u>	<u>100.0</u>	<u>72.3</u>	<u>100.0</u>	<u>72.6</u>	<u>100.0</u>

(a) Assuming 1968-69 marketing system structure.

Table 5 : Sector Comparisons: Percent Distribution of Purchases: Australia, 1968-69 and 1974-75; United States, 1947.

Supplying Sector	Purchasing Sectors											
	Rural			Manuf.			Wholesale			Retail		
	Aust 74-5	Aust 68-9	US 47	Aust 74-5	Aust 68-9	US 47	Aust 74-5	Aust 68-9	US 47	Aust 74-5	Aust 68-9	US 47
	%	%	%	%	%	%	%	%	%	%	%	%
Rural	10.9	19.1	25.5	4.9	7.9	9.7	8.9	9.7	13.5	0.9	0.9	0.9
Extractive	-	-	-	3.9	1.9	4.6	4.9	3.9	1.4	-	-	0.8
Manuf.	19.0	11.5	2.7	23.7	33.5	40.1	43.9	46.6	54.5	61.3	37.1	20.5
Build.	2.5	3.2	1.1	0.6	0.9	0.5	0.1	0.1	-	0.1	0.1	0.2
Services	4.0	4.5	14.2	5.6	6.3	4.0	3.1	2.4	1.1	7.0	5.0	4.9
Public	1.4	0.4	0.3	-	-	1.5	-	-	0.1	-	-	0.6
Transp.	2.8	1.6	3.0	1.6	1.2	3.7	6.8	6.9	3.3	1.4	1.0	1.5
Wholesale	41.3	33.5	30.6	40.3	31.0	33.6	26.4	23.8	24.1	26.4	46.0	63.6
Retail	13.3	21.2	21.7	0.8	1.2	0.3	0.6	0.8	0.2	2.8	3.4	3.7
Imports	4.8	5.0	0.9	18.6	6.0	2.0	6.3	5.7	1.8	-	-	-
Total	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0

Note: Some sectors were excluded as purchasing sectors due to inconsistencies in the U.S. and Australian definitions of sector composition. This should be borne in mind in the analysis of the data in each column. In particular, the public sector in the U.S. includes utilities: these have been included in manufacturing in the Australian data.

Table 5 : Sector Comparisons: Percent Distribution of Purchases: Australia 1968-69 and 1974-75; United States, 1947. (contd.)

Supplying Sector	Purchasing Sectors											
	Total Inter. Purchases			Final Exp. Households			Final Demand		Aust 74-5		US 47	
	Aust 74-5	Aust 68-9	US 47	Aust 74-5	Aust 68-9	US 47	Aust 74-5	Aust 68-9	US 47	Aust 74-5	Aust 68-9	US 47
Rural	4.8	6.0	8.9	0.1	0.3	2.1	0.3	0.6	1.7	3.1	4.2	6.3
Extractive	3.0	2.1	2.0	-	-	-	0.6	0.5	-	2.1	1.5	1.3
Manuf.	34.5	34.4	35.8	1.9	3.0	2.4	6.1	7.5	6.8	23.8	25.1	25.5
Build.	1.4	1.5	1.6	-	-	0.1	12.5	12.6	9.1	5.5	5.4	4.3
Services	10.6	9.8	5.7	26.7	24.0	32.9	15.3	14.3	25.4	12.4	11.3	12.7
Public	0.3	0.2	1.5	5.3	5.4	1.3	14.7	13.0	1.1	5.8	4.6	1.3
Transp.	3.6	3.2	3.1	3.0	3.6	3.3	2.8	3.0	3.5	3.3	3.1	3.2
Wholesale	31.3	31.7	36.2	1.0	1.1	1.3	13.2	13.1	8.9	24.5	25.3	26.5
Retail	2.0	2.5	3.2	61.5	66.1	51.2	33.7	37.0	38.7	13.9	14.5	15.9
Imports	8.3	7.3	1.5	0.6	0.4	0.7	0.8	0.8	1.5	5.5	5.0	1.5
Total	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0

Table 6 : Sector Comparisons: Percent Distribution of Sales: Australia, 1968-69 and 1974-75; United States, 1947.

Supplying Sector	Selling Sector														
	Rural			Extractive			Manuf.			Building			Services		
	Aust 74-5	Aust 68-9	US 47	Aust 74-5	Aust 68-9	US 47	Aust 74-5	Aust 68-9	US 47	Aust 74-5	Aust 68-9	US 47	Aust 68-9	Aust 68-9	US 47
%	%	%	%	%	%	%	%	%	%	%	%	%	%	%	%
Rural	3.7	6.8	12.6	-	-	-	0.8	0.7	0.3	0.4	0.9	0.8	0.3	0.6	3.5
Extractive	-	-	-	5.6	9.6	-	0.4	0.3	0.1	0.3	0.2	0	0.5	0.4	0.2
Manuf.	26.3	32.6	23.4	33.2	20.9	52.6	16.7	22.9	24.0	1.8	2.8	1.7	7.6	9.7	4.8
Building	-	-	-	-	-	1.9	2.8	2.1	1.5	0.4	1.4	-	1.3	1.3	1.6
Services	-	-	-	-	-	1.0	2.6	1.7	0.8	6.5	5.9	15.0	28.4	30.6	10.2
Public	-	-	-	-	-	6.2	1.0	2.2	0.1	3.4	4.4	1.5	2.6	2.5	0.3
Transp.	-	0.2	-	0.2	-	3.6	1.1	1.1	0.5	2.1	2.4	4.4	1.9	1.8	1.2
Wholesale	63.2	53.3	52.6	51.7	57.6	26.0	39.6	42.4	52.8	0.3	0.3	0.1	5.4	4.8	2.1
Retail	2.7	2.4	1.9	-	-	8.0	25.4	16.4	10.4	0.2	0.3	0.5	5.6	4.9	5.0
Inter. Sectors	96.0	95.3	90.5	89.8	88.1	99.3	90.5	89.8	90.5	15.6	18.6	24.1	53.8	56.5	28.9
Final Exp. Households	0.5	1.1	8.1	-	-	-	1.5	2.1	2.3	-	-	0.5	42.1	38.1	64.1
Final Demand	4.0	4.7	9.5	10.2	11.8	0.7	9.5	10.2	9.5	84.4	81.4	75.9	46.2	43.5	71.1
Total	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0

Note: See note to Table

Table 6.: Sector Comparisons: Percent Distribution of Sales: Australia, 1968-69 and 1974-75; United States, 1947. (contd.)

Supplying Sector	Selling Sector											
	Transp.		Wholesale		Retail		Imports					
	Aust 74-5	Aust 68-9	US 47	Aust 74-5	Aust 68-9	US 47	Aust 74-5	Aust 68-9	US 47	Aust 74-5	Aust 68-9	US 47
%	%	%	%	%	%	%	%	%	%	%	%	%
Rural	0.8	0.8	2.9	1.8	1.9	3.6	1.0	2.2	4.3	0.9	1.5	1.9
Extractive	1.0	0.3	0.7	1.7	1.8	0.2	0.2	0.3	-	0.5	0.5	0.2
Manuf.	8.0	6.4	17.3	27.7	21.0	19.4	1.0	1.4	0.3	56.8	54.3	20.6
Building	2.3	1.6	2.3	8.2	8.7	4.1	0.4	0.8	4.2	-	-	1.1
Services	4.2	2.7	0.8	3.2	5.1	6.5	1.3	1.4	0.4	3.0	2.9	1.3
Public	1.5	0.7	0.8	1.5	1.1	0.1	0.3	0.4	-	0.9	2.4	0.5
Transp.	1.3	0.8	5.5	1.3	0.8	0.5	1.9	1.4	0.6	6.9	7.2	1.2
Wholesale	44.7	50.0	25.2	23.7	21.5	22.5	1.0	1.2	0.3	24.9	25.7	29.6
Retail	4.2	3.4	5.9	10.6	20.2	31.2	2.0	2.6	3.0	0.1	-	7.1
Inter. Sectors	68.1	66.7	61.4	79.8	82.6	88.1	9.1	11.7	13.2	93.9	94.5	63.5
Final Exp. Households	17.7	20.6	25.1	0.8	0.8	1.2	86.2	82.1	79.9	2.3	1.6	11.4
Final Demand	31.9	33.3	38.6	20.2	17.9	11.9	90.9	88.3	86.8	6.1	5.5	36.5
Total	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0

Table 7: Structure and Notation

(a) Input Output Table (X)

	Producers	Trade	Final Demand	Output
Producers	X_{PP}	X_{PT}	X_{PD}	Q_P
Trade	X_{TP}	X_{TT}	X_{TD}	Q_T
Imports	X_{MP}	X_{MT}	X_{MD}	Q_M
Cons. Sales	X_{HP}	X_{HT}	X_{HD}	Q_H
Inputs	$Q_P - V_P$	$Q_T - V_T$	Q_D	$Q - V$

(b) Trade Flow Table (Z)

Producers	Z_{PP}	Z_{PT}	Z_{PD}	Q_P
Trade	Z_{TP}	Z_{TT}	Z_{TD}	Q_T^*
Imports	Z_{MP}	Z_{MT}	Z_{MD}	Q_M
Cons. Sales	Z_{HP}	Z_{HT}	Z_{HD}	Q_H
Inputs	$Q_P - V_P$	Q_T^*	Q_D^*	Q^*

Table 8:

Direct Flow Coefficients (Δ_{ij})

Supplying sector (P)	Purchasing Sector (P)							
	Rural	Ext.	Manuf.	Build.	Services	Public	Transp.	
Rural	0.5354 .8637	0.0135 0	0.5617 .6874	0 0	0.0529 0.0133	0.6774 1.0000	0 1.0000	
Ext.	0 0.2500	0.7699 0.8147	0.6707 0.3741	0.0214 0	0.0476 0	0.5814 0.1071	0.4929 0.0463	
Manuf.	0.4066 0.2633	0.3671 0.3401	0.5296 0.7273	0.2960 0.2337	0.5091 0.2872	0.4685 0.7375	0.4668 0.5976	
Build.	1.0000 1.0000	1.0000 1.0000	1.0000 1.0000	1.0000 1.0000	1.0000 1.0000	1.0000 1.0000	1.0000 1.0000	
Services	1.0000 1.0000	1.0000 1.0000	1.0000 1.0000	1.0000 1.0000	1.0000 1.0000	1.0000 1.0000	1.0000 1.0000	
Public	1.0000 1.0000	1.0000 1.0000	1.0000 1.0000	1.0000 1.0000	1.0000 1.0000	1.0000 1.0000	1.0000 1.0000	
Transp.	0.4483 0.3170	0.4476 0.3187	0.4480 0.3166	0.4479 0.3159	0.4479 0.3175	0.4479 0.3133	0.4477 0.3164	
Imports (M)	1.0000 1.0000	0.1184 0.0921	0.7249 0.7250	1.0000 1.0000	1.0000 1.0000	1.0000 1.0000	1.0000 1.0000	
Cons.Sales (H)	1.0000 1.0000	1.0000 1.0000	0.2111 0.2188	1.0000 1.0000	1.0000 1.0000	1.0000 1.0000	1.0000 1.0000	

Direct Flow Coefficients - Final Use (Δ_{ij})

Final Use Sector (D)

Supplying sector (P)	Final Exp. Private	Final Exp. Government.	Fixed Exp. Private	Fixed Exp. Government.	Δ Stocks	Exports	Total Final Demand
Rural	74-75 68-69	0.0568 0.1127	1.0000 1.0000	(1.0000) 1.0000	0.4330 0.3365	0.0001 0.0068	0.0876 0.1077
Ext.	74-75 68-69	0.0136 0.0238	1.0000 1.0000	0 0	0.5446 0.5147	0.2346 0.3956	0.2468 0.4475
Manuf.	74-75 68-69	0.0613 0.0857	0.9772	0.1195 0.0968	0.2010 0.1653	0.7221 0.7202	0.2203 0.2389
Build.	74-75 68-69	(1.0000) 1.0000	(1.0000) 1.0000	1.0000 1.0000	(1.0000) 1.0000	(1.0000) 1.0000	1.0000 1.0000
Services	74-75 68-69	1.0000 1.0000	1.0000 1.0000	1.0000 1.0000	1.0000 1.0000	1.0000 1.0000	1.0000 1.0000
Public	74-75 68-69	1.0000 1.0000	1.0000 1.0000	1.0000 1.0000	(1.0000) 1.0000	1.0000 1.0000	1.0000 1.0000
Transp.	74-75 68-69	0.6833 0.7280	1.0000 1.0000	0 0	0 0	0.5709 0.5992	0.5897 0.6092
Imports (M)	74-75 68-69	1.0000 1.0000	(1.0000) 1.0000	0 0	1.0000 1.0000	1.0000 1.0000	1.0000 1.0000
Cons. Sales (H)	74-75 68-69	1.0000 1.0000	(1.0000) 1.0000	0 0	1.0000 1.0000	1.0000 1.0000	1.0000 1.0000

Note: Figures in brackets correspond to zero flows in the 1974-75 input/output table.

Table 9 : Final Use Sector (D)

Supplying Sector (P)	Final Exp. Private	Final Exp. Govt.	Fixed Exp. Govt.	Fixed Exp. Govt.	Fixed Exp. Govt.	Δ Stocks	Exports	Total Final Demand
Rural 74-75	0.0568	1.0000	(1.0000)	1.0000	1.0000	0.4330	0.0001	0.0876
68-69	0.1127					0.3365	0.0068	0.1077
Extract. 74-75	0.0136	1.0000	0	0	0	0.5446	0.2346	0.2668
68-69	0.0238					0.5147	0.3956	0.4475
Manuf. 74-75	0.0613	0.9772	0.1195	0.4078	0.4078	0.2010	0.7221	0.2203
68-69	0.0857		0.0968	0.8793	0.8793	0.1653	0.7202	0.2389
Building 74-75	(1.0000)	(1.0000)	1.0000	1.0000	1.0000	(1.0000)	(1.0000)	1.0000
Services 74-75	1.0000	1.0000	1.0000	1.0000	1.0000	1.0000	1.0000	1.0000
Public 74-75	1.0000	1.0000	1.0000	1.0000	1.0000	(1.0000)	1.0000	1.0000
Transport 74-75	0.6833	1.0000	0	0	0	0	0.5709	0.5897
68-69	0.7280						0.5992	0.6092
Imports (M) 74-75	1.0000	(1.0000)	0	(1.0000)	(1.0000)	1.0000	1.0000	1.0000
Cons. Sales 74-75 (H)	1.0000	(1.0000)	0	(1.0000)	(1.0000)	1.0000	1.0000	1.0000

Note: Figures in brackets correspond to zero flows in the 1974-75 input output table.

Table 10:

Indirect Flow Coefficients (β_{ij})

<u>Sector</u>		<u>Wholesale</u>	<u>Retail</u>
Rural	74-75	0.9583	0.0417
	68-69	0.9568	0.0432
Extractive	74-75	1.0000	0
	68-69	1.0000	0
Manuf.	74-75	0.6096	0.3904
	68-69	0.7214	0.2786
Building	74-75	0.5666	0.4334
	68-69	0.5507	0.4493
Services	74-75	0.4929	0.5071
	68-69	0.4968	0.5032
Public	74-75	0.3636	0.6364
	68-69	0.5000	0.5000
Transport	74-75	0.9132	0.0868
	68-69	0.9367	0.0633
Imports	74-75	0.9970	0.0030
	68-69	1.0000	0

Table 11:

Indirect Flow Coefficients (γ_{ij})

<u>Sector</u>		<u>Wholesale</u>	<u>Retail</u>
Rural	74-75	0.7560	0.2440
	68-69	0.6123	
Extractive	74-75	0.9330	0.0670
	68-69	0.9145	
Manuf.	74-75	0.9805	0.0195
	68-69	0.9638	
Building	74-75	0.9705	0.0295
	68-69	0.9522	
Services	74-75	0.8128	0.1872
	68-69	0.8619	
Public	74-75	0.8867	0.1133
	68-69	0.8425	
Transport	74-75	0.5562	0.4438
	68-69	0.4909	

Table 12: Retained Purchases by Trade Sectors (ϵ_{ij})

<u>Sector</u>		<u>Wholesale</u>	<u>Retail</u>
Rural	74-75	0	0
	68-69	0	0
Extractive	74-75	0.0008	4.0000
	68-69	0.0043	0
Manuf.	74-75	0.0289	0.0668
	68-69	0.0190	0.0912
Building	74-75	1.0000	1.0000
	68-69	1.0000	1.0000
Services	74-75	1.0000	1.0000
	68-69	1.0000	1.0000
Public	74-75	1.0000	1.0000
	68-69	1.0000	1.0000
Transport	74-75	0.0481	0.2039
	68-69	0.0454	0.2477

Table 13: Trade Flows - 1974-75 - Assessing 1968-69 Structure

	Rural	Ext.	Manuf.	Build.	Services	Public	Transp.	Whole-sale	Retail	Final Demand	Total
Rural	362.0	0	1948.0	0	0.3	3.1	6.4	3281.1	148.1	295.3	6044.3
Ext.	0.5	239.4	721.1	0	0	0.5	0.6	2310.9	-	745.0	4018.0
Manuf.	253.4	158.4	10656.1	1020.1	692.7	755.9	679.6	19763.0	7632.4	4794.8	46406.4
Build.	51.2	34.0	196.2	45.0	705.2	366.6	228.0	31.0	25.3	9091.7	10774.2
Services	83.5	124.6	1837.6	305.3	6835.7	633.1	457.3	1324.6	1341.7	11134.5	24079.7
Public	28.2	12.7	7.1	0.4	394.7	19.7	11.0	0.5	0.6	10726.2	11201.1
Transp.	40.4	45.3	365.4	106.4	193.6	68.8	59.6	1545.0	104.4	3942.1	6471.0
Wholesale	700.7	840.9	10543.8	4164.2	2172.2	490.8	497.2	9696.6	8655.2	7876.9	45638.5
Retail	443.6	78.6	396.0	209.0	348.1	91.8	516.7	329.9	681.2	23956.8	27051.7
Import	99.9	38.1	6113.9	0.5	320.7	93.8	740.5	2702.9	-	658.9	10769.2
Household	-	0.5	26.4	-	0.8	1.1	-	94.5	1280.1	-1403.3	-
Total	2063.4	1572.5	32811.6	5850.9	11665.8	2525.2	3195.9	41080.0	19869.0	71391.9	

Table 14 :

Changes in the distribution of intermediate and
final demand flows

<u>Flow</u>	<u>Changes between 1968-69 and 1974-75</u>		
<u>Intermediate</u>	Due to change in final demand vector	Due to structured change	Total change
	%	%	%
P → P	+0.3	-2.3	-2.0
P → W	-1.0	-0.3	-1.3
P → R	+0.4	+3.8	+4.2
W → P	+0.7	+1.7	+2.4
W → W	-0.2	+1.2	+1.0
W → R	-0.5	-3.5	-4.0
R → P	+0.1	-0.4	-0.3
R → W	0	0	0
R → R	+0.2	-0.2	0
<u>Final Demand</u>			
P → D	+5.5	-3.4	+2.1
W → D	-2.1	+2.4	+0.3
R → D	-3.4	+1.0	-2.4

*Interesting paper
Well developed
GO!!*

MARKETING DETERMINANTS OF U.S. DIRECT INVESTMENT
IN CANADIAN MANUFACTURING INDUSTRIES

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I Introduction

This study was undertaken for the following reasons:

1. The issue of foreign direct investment (hereafter FDI) by U.S. multinationals in Canada has been a topic of concern between the two governments for some time.
2. Canada's Foreign Investment Review Agency (which reviews all foreign corporate bids to buy Canadian firms) considers a great many factors in its deliberations, but unfortunately, tends to ignore marketing related implications.
3. The search for causal explanations of FDI among Canadian industries has attracted a significant amount of research effort. Most of this work has been done by international economists such as Caves (1972, 1974); Orr (1974); Groecki (1976); Horst (1972a) and Caves, Porter, Spence and Scott (1982). Unfortunately, the role of marketing related explanations in much of this research has either been neglected outright or, at best, applied within a limited context.

The objective of this study is to test the applicability of marketing variables to the explanation of United States multinational corporate (hereafter MNC) inter-industry variance of direct investment among Canadian manufacturing industries.¹

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1. Since this study is concerned specifically with Canadian -- American market interactions the posited behavioral relationships will not be generalizable (at least without a great many caveats) to other international trading structures.

This is to be accomplished by entering the marketing proxies in multiple regression along with the "traditional explanations" of FDI in order to determine whether the marketing variables perform as well as, or better than the more commonly accepted economic variables.

II Marketing Based Explanations of Foreign Direct Investment Spillover Effects of Advertising

The spillover issue is reflected in the following quote from research by Schoner and Schwindt (1980).

In general, the appeals which are effective for the American audience are effective for the Canadian one. Thus, spillover advertising (i.e., advertising aimed at the United States market, but which reaches the Canadian market either through border television stations or magazines) represents a costless investment to the United States firm.... Advertising from United States firms to the American market spill over to Canada, creating demand for their product. This, together with advantages of marketing know-how, provides an incentive for the larger United States consumer good corporation to expand its Canadian activities.

One would expect network television to act as a spillover medium because the northern United States border television stations (especially Bellingham, Washington; Buffalo, New York; and Bangor, Maine) all fall into the network classification and are widely received in Canada. A similar argument concerning the international coverage of such United States originating magazines as Time, Fortune, Newsweek, Business Week, Playboy, Cosmopolitan, etc. can also be made.

In order to relate United States advertising spillover to FDI in Canada one must also consider the offsetting competitive effects created by host country (Canadian) rival firms who advertise heavily in Canadian media. Identification of those United States (donor country) industries which are characterized by a relatively heavy concentration of advertising effort in network television or magazines does not necessarily provide justification for predicting an associated large United States FDI component in the equivalent Canadian industry by reason of the spillover motive. A number of constraining scenarios might exist which would effectively limit the advertising spillover incentive to the potential foreign direct investor.

1. A substantial investment of their total advertising budget in network TV and magazines (therefore good spillover potential), by some United States domiciled industry "i" might be thwarted due to an equally significant (if somewhat smaller in absolute terms) media investment by the extant firms of the equivalent Canadian industry "i". This argument reduces to an entry barrier effect. The United States spillover potential could be effectively nullified by competing Canadian based advertising in national mass media (network TV and magazines).
2. A high United States spillover potential may not correspond to a high United States multinational market share of some Canadian industry "i" because the extant MNC's in Canada might not choose to capitalize on the spillover effect. This situation might occur where the United States owned subsidiary has chosen to "naturalize" the parent company's basic product through "Canadianizing" the brand image in an attempt to foster Canadian consumer acceptance. The implication of this strategy is that the multinational in Canada will consequently be forced to use Canadian media to advertise its "ersatz Canadian" product.

3. It is possible for some Canadian industry "i" to attract multinational entrants from a United States industry which is characterized by a relatively low spillover potential.² This could occur where advertising activity in Canadian media, by the Canadian incumbent firms, is even less intensive than the American advertising activity by United States firms in their "spillover media." The result could be that United States firms might be tempted to enter the Canadian market since even their minimal quantity of spillover advertising might be sufficient from a relative standpoint, to overcome any advertising related entry barriers constructed by the Canadian firms.

The preceding examples are designed to demonstrate, with regard to advertising spillover effects, the argument that studies of FDI must consider activities in both the host and donor countries simultaneously if a more accurate assessment of conditions confronting the multinational are to be appreciated.

More specifically, it is posited that initial multinational investment in Canada is influenced by United States originating media which spill over into the host country. The desire to capture the economic rents of their United States advertising budgets leads the multinationals to consider FDI or some alternative form of penetration.³

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2. This situation might pertain in producer goods industries. The role of advertising in industrial products industries is discussed by Caves (1974); Morrill (1970) and Lilien and Silk (1976).
 3. A caveat is required here. The MNC may not in fact be able to capture the full economic rents of advertising spillover because some U.S. originating magazines produce a "Canadian edition" of their publications. Similarly, U.S. border stations bill their American clients on the total viewership which they command, i.e., both U.S. and Canadian audiences. It is therefore more appropriate to suggest that the U.S. media and their American advertisers share in the capture of economic rents associated with spillover into Canada.

In the case of MNC's already active in Canada, the U.S. spillover effect can be considered to act either as the multinational's "substitute source" of advertising for Canadian media or, as an augmentation to Canadian based advertising undertaken by the MNC. The role of Canadian based advertising in network TV and magazines as used in this research is to function as an adjustment calculation to the United States spillover data.

The Advertising Sales Ratio and Market Evaluation

Researchers in the FDI field have tended to base their advertising data either on host country statistics or donor country statistics. (This is determined by which of the respective theories they wish their advertising data to proxy.) It is suggested here that theories of multinational corporate penetration of Canadian industry must take account of the relative attractiveness of the host to the donor country markets.

Within the marketing framework, the evaluation of alternative advertising projects may well be influenced by the firm's knowledge of its current and/or expected advertising/ sales ratios. This is not to imply that firms zealously consider each and every minor variation in their advertising/sales ratios.⁴

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4. This is because the ratio captures the average rather than the marginal relationship between advertising and sales. If the firm were able to calculate marginal relationships, then even minor changes in the sales response to advertising would be crucial. San Augustine and Foley (1975) confirm previous research results concerning the reliance of even the largest advertisers on the standard advertising/sales ratio when determining ad budgets.

Rather, it is argued that the ratio functions as an indicator or proxy for conditions which confront the firm in its various current or potential markets. A United States MNC confronted with a choice between expanding its domestic market or developing the Canadian market might be expected to consider the two alternatives in terms of sales potential response to its marketing (specifically advertising) effort (since advertising effort is expected to play a major role in product acceptance).

The implication of treating the advertising/sales ratio as a proxy for the relative attractiveness of alternative market development leads to the suggestion that both United States and Canadian ratios should be incorporated into the same regression equations.

Relative Market Growth Rates

In keeping with the tenet of "relative comparisons" between the host and donor country markets, the "relative market growth rate" hypothesis suggests -- ceteris paribus -- that the market which displays the greatest degree of sales growth should be perceived as the most attractive viz. potential return on investment. The U.S. multinational in some industry "i" might therefore be inclined to compare the sales potential of its extant domestic market with that of the Canadian equivalent industry before deciding upon its allocation of investment funds. One useful mechanism for conducting such a comparison would be to consider the relative growth rates of the two markets.

Market Risk

Just as the past market growth rate might be expected to play a role in investment decisions, so the stability of those same markets might be expected to exert an influence on the multinational's allocation of funds. Therefore it is hypothesized that a Canadian industry should be perceived as more attractive than its U.S. counterpart if the variance associated with the Canadian market growth rate is smaller than that of the American industry.⁵ The concept of market risk invites a rationale similar to that applied to the other marketing hypotheses, namely, that risk is a relative concept. This implies that a behavioral study of the MNC's decision to foreign direct invest in Canadian industry should specifically take account of host as well as donor country market stability.

Marketing Management Infrastructures

The marketing management infrastructure represents a sunk investment in marketing expertise which the U.S. multinational incurs as a cost of doing business in its domestic market. It is hypothesized that this stock of expertise can provide a

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5. The concept of risk has traditionally been based on the standard deviation of past industry profit rates. Unfortunately studies involving profit rates do not, in the main, produce robust results due to the wide variation of profit calculating techniques among different industries. A risk variable based on the variance of past sales however has the advantage of congruency-sales tend to be reported consistently across industries.

competitive means of penetrating Canadian industry. Naturally the marketing expertise which a U.S. multinational may possess would be most useful in penetrating those types of Canadian industries which are most reliant on marketing as a means of competition.

If the hypothesized relationship holds, one should observe a positive correlation between those Canadian industries which have been heavily penetrated by U.S. multinationals and those U.S. industries which have invested heavily in a marketing management infrastructure.

III

An Econometric Model of U.S. Foreign Direct Investment in Canada Variable Specification

A total of eleven independent variables are introduced in the model -- six of which are marketing related specifications designed to proxy the previously posited hypotheses. One of the remaining five variables (U-CCON) is an "innovation" on a specification previously introduced in the literature. The last four variables are "traditional explanatory factors" of FDI, which have been previously used in the literature.

The variables, their expected signs, sources and related caveats (where pertinent) are discussed in the following text.

MNCSHAR
(DEP.VAR)

The market share of Canadian manufacturing industry "i", held by U.S. multinational corporations. Source; unpublished C.A.L.U.R.A., Corporation Financial Statistics. Control groups 2 and 4, Industry group 2, 1975.

- US-CNTV
(Expected sign; positive)⁶ The difference between the U.S. and Canadian percentages of total advertising budgets invested in network television advertising. Source; Canadian data from Marketing Magazine April 1975. U.S. data courtesy of Dr. Richard Caves and from Advertising Age, Vol. 46, 1975.
- US-CN MAG
(Expected sign; positive) The difference between the United States and Canadian percentages of total advertising budgets invested in magazine advertising. Source; same as for previous variable.
- US-CNA% S
(Expected sign; positive) The difference between the United States and Canadian advertising/sales ratios. Source; Canadian data from Marketing Magazine April 1975. U.S. data from Advertising Age, Vol. 46, 1975.
- US-CNRMG
(Expected sign; negative)⁷ The difference between the United States and Canadian relative average percentage market growths. Source; Canadian data from unpublished C.A.L.U.R.A., Corporation Financial Statistics. Control groups 2 and 4, Industry group 2, 1975. U.S. data from U.S. Bureau of the Census. Annual Survey of Manufacturers, General Statistics for Industry Groups and Industries, 1972-74.

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- 6. The U.S. spillover calculation for a given industry is adjusted downward through subtraction of the equivalent Canadian industry's percentage of advertising budget spent on the spillover medium in question. In the case of those multinationals which rely both on U.S. spillover and Canadian based media to advertise the same product brands, a type-two error arises. For example, subtraction of the Canadian percentage of advertising budget devoted to network TV in industry "i" from the U.S. equivalent will cause an underestimation of the spillover value produced by media in the United States. Additionally, the augmentation effect of reinforcing U.S. spillover advertisements with Canadian based media ads will also be lost.
 - 7. The specification of US-CNRMG (and RUSD-USC presented next) should possibly be based on a longer time period. Aharoni (1966) however, found that the MNC's elapsed time between "new market" investigation and FDI averaged two years (with a variance of from one to seven years). In any event, U.S.-Canadian data concordance difficulties left no alternative. The calculations of US-CNRMG and RUSD-USC are presented in Appendix A.

RUSD-USC (Expected sign; positive)	The difference between the United States and Canadian industry levels of risk. Source; same as for previous variable.
USMKTMG (Expected sign; positive)	The proportion of sales managers for each industry "i" in the U.S. Source; U.S. Bureau of the Census. <u>Census of Population: 1970, Occupation by Industry, Final Report, Table 8, 1972.</u>
U-CCON (Expected sign; positive) ⁸	The difference between the United States and Canadian, "four firm" concentration ratios for industry "i". Source; Canadian data from Statistics Canada. <u>Industrial Organization and Concentration in the Manufacturing, Mining and Logging Industries, 1972.</u> U.S. data from the U.S. Bureau of the Census. <u>Census of Manufacturers, Concentration Ratios in Manufacturing, SR2-6, Table 5, 1975.</u>
USR&D (Expected sign; positive)	The proportion of research and development related personnel in each U.S. industry "i". Source; same as for previous variable.
USNP (Expected sign; positive)	The proportion of salaries and wages devoted to non-production employees in U.S. industry "i". Source; U.S. Bureau of the Census. <u>Annual Survey of Manufacturers, General Statistics for Industry Groups and Industries, Table 16, 1974.</u>
USMPC (Expected sign; positive)	The proportion of shipments attributable to multiplant companies in the U.S. Source; U.S. Bureau of the Census. <u>Census of Manufacturers, 1972, Subject and Special Report Series, Vol. 6, MC72(1)-1, Table 2, 1975.</u>
USLSF (Expected sign; positive)	Proportion of shipments accounted for by firms with greater than 100 employees in U.S. industry "i". Source; U.S. Bureau of the Census. <u>Census of Manufacturers, 1972, Vol. I, Industry Series Part I, Table 4, 1975.</u>

8. The relative concentration variable (U-CCON) is based on the hypothesis that concentration represents a barrier to entry. If the Canadian industry "i" shows a lower concentration ratio than the U.S. equivalent industry, it should -- ceteris paribus -- be a more attractive market alternative to U.S. MNC's.

The last four variables have not been elaborated upon due to space considerations. Caves (1974) provides a detailed explanation of their role in explaining FDI.

The data analysis is based on a number of cross-sectional regressions applied to a sample of 50 industries in the manufacturing sector (primary and tertiary sectors were not considered).⁹ Industries were matched at the Canadian SIC three-digit level.

The time period of concern for the regression analysis ranges from 1972 to 1975. The dependent variable is based on the 1975 market share held by U.S. multinationals in Canadian manufacturing industries while the independent variables are constructed from information taken from the years 1972 through 1974 inclusive. This was done in order to avoid problems of simultaneity. Lagging the independent variables relative to the dependent variable mitigates, somewhat, the argument that MNC market share in year "x" has caused the data configurations among the independent variables in the preceding years "x-2" or "x-3".

The regression results appear in Table 1. Due to limitations of space, the correlation matrices for each of the eight equations have been eliminated. (The largest colinear relationship found was .5382).

9. A time series approach to testing unfortunately had to be rejected because of data availability problems. This study consequently suffers from a common difficulty of FDI research -- the "static-dynamic" misspecification" problem described by Caves (1974).

TABLE 1. DEPENDENT VARIABLE = US&C CANADIAN MARKET SHARE

CORRELATIONS WITH DEPENDENT VARIABLE	INTERCEPT	RUSD-USC	US-CMAIS	USMFC	USLSF	U-COON	USNP	US-CNTV	US-CNMG	USR&D	USMKTMG	US-CNMG
EQUATION 1												
COEFFICIENTS	-.125	.297	.037	.492	.005	.407						
t-VALUES	(-1.01)	(1.27)	(2.13)b	(3.62)a	(3.17)a	(1.67)c						
d.f.=44	R ² =.59											
se.=.168	R ² =.55											
F=12.84												
EQUATION 2												
COEFFICIENTS	.128	.381	.062	.284	.004							
t-VALUES	(1.23)	(1.47)c	(3.93)a	(2.25)b	(2.09)b							
d.f.=45	R ² =.50											
se.=.184	R ² =.46											
F=11.26												
EQUATION 3												
COEFFICIENTS	.178	.532	.064	.160	.004							
t-VALUES	(1.75)b	(2.08)b	(4.21)a	(1.21)	(2.10)b							
d.f.=44	R ² =.56											
se.=.176	R ² =.51											
F=11.00												
EQUATION 4												
COEFFICIENTS	-.108	.233	.387	.178	.004							
t-VALUES	(-.90)	(.89)	(2.37)b	(1.38)c	(2.46)a							
d.f.=44	R ² =.49											
se.=.188	R ² =.44											
F=8.55												
EQUATION 5												
COEFFICIENTS	.192	.408	.006	.006	.007							
t-VALUES	(1.94)b	(1.60)c	(4.46)a	(4.46)a	(2.91)a							
d.f.=44	R ² =.57											
se.=.173	R ² =.52											
F=11.69												

STUDENT'S t-VALUE ONE TAILED TEST: a = SIGNIFICANT AT 1%, b = SIGNIFICANT AT 5%, c = SIGNIFICANT AT 10%

IV Empirical Results

The two spillover variables are discussed simultaneously since both share a common hypothesis.

US-CNTV is reported in Equations 5. Performance of the variable falls well within the .01 level of significance.

US-CNMAG appears in Equations 3 and 5. Significance levels for this variable fall in .05 and .01 regions. Both variables perform according to expectations and are correctly signed. In addition, US-CNTV and US-CNMAG are relatively free of collinearity problems.

Significance levels in two of the three equations for which US-CNA%S (the difference between the U.S. and Canadian advertising/sales ratios) has been reported lie well within the one percent region. In Equation 1 the variable is close to significance at one percent.

US-CNA%S, despite a reasonably strong simple correlation with the dependent variable (.5753) is fairly sensitive to collinearity problems. Note that in Equation 1, the variable is robust despite a first order collinearity with USNP of .5382.

The performance of US-CNRMG (the relative market growth variable) was surprising, since it was a priori expected to be a strong variable. In its final form (Equation 4) it achieves significance at the 5% level, but this result represents the strongest which could be developed for the sales growth data. It is possible that the mediocre performance of this variable

lies with the limited time period over which the growth rates were calculated.

The risk variable performs reasonably well across all equations. RUSD-USC is clearly not as robust as other variables in the model (significance levels are generally around .10 and .05), but it does have the advantage of being relatively free of first order collinearity problems.

The marketing management variable was tested in Equation 4. Regression results indicate USMKTMG performs at the .05 level of significance.

The remaining "non-marketing related" independent variables all perform as hypothesized. A brief perusal of Table 1 will indicate the respective performances and statistical significance associated with each of these variables.

V Conclusions

The marketing specifications in aggregate, certainly perform as well as the more traditional explanations of U.S. foreign direct investment in Canada. Despite the often crude construction of the marketing variables (since data availability is severely limited), empirical results appear to vindicate the objective of this study and to justify further work in the development of more accurate marketing proxies.

The marketing hypotheses per se also offer an intuitive appeal which many of the more traditional explanations seem to

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lack. The researcher in FDI is justified in his concern regarding such issues as "Why and by what mechanisms specifically, does the multinational penetrate foreign markets?" Traditional explanations such as "large sized firms" or a "high proportion of non-production employees" while interesting, are too general to provide much enlightenment viz. the question.

It is suggested here that the marketing hypotheses of the type introduced earlier come much closer to addressing the "Why and How" issues of penetration.

The role of spillover advertising requires a great deal more research (especially with regard to acquisition of accurate data). Performance of the variables in this study however, leads to the conclusion that there is a link between U.S. originating spillover and multinational presence in Canadian manufacturing industries. Furthermore, preliminary results of subsequent research appear to indicate that U.S. mass media spillover might to some degree, be treated as a substitute for Canadian media sources by multinationals active in the Canadian market.

US-CNA%S (designed to capture the difference between the American and Canadian advertising/sales ratios) performs well as a determinant of MNC market share among the Canadian manufacturing industries. The intuitively appealing (if not unexpected) implication of this result is that firms do indeed

take account of relative sales response to advertising efforts in both the host and donor countries when evaluating and responding to market investment alternatives.

Traditional treatment of the advertising/sales ratio has been to consider it either as a "barrier to entry" proxy (using a Canadian data base) or as an indicator of "marketing expertise" (U.S. data base). The concept underlying US-CNA%S represents a departure from those traditional treatments in an attempt to create a hypothesis which is more closely related to that which the ratio is believed to represent, i.e., the relationship between advertising and sales as it is perceived by the firm.

The relative "market growth" and "market risk" variables both perform as expected -- although empirical results are not as "robust" as those reported for the other marketing specifications. Structuring the growth and risk variables on industry sales rather than profits does however, appear to provide a superior prediction of MNC market share.

The "marketing management infrastructure" specification performs quite well. The implication of USMKTMG's relationship with the dependent variable is that management expertise in the area of marketing is a factor in gaining and expanding market share for U.S. multinationals in Canada. The variable is felt to be an improvement over Caves' "non-production employees" formulation because it is far more specific in terms of "what

type" of management expertise is important in penetration of the Canadian manufacturing sector.

The policy implications of this research are most readily applied to the advertising spillover issue. The Canadian government has defended Bill C-58 (which eliminates the tax deductible status of advertising expenditures placed by Canadian firms in U.S. media serving Canadian audiences) as a measure to protect "cultural sovereignty." Given that the results of this study can be substantiated, they might consider the competitive impacts of the legislation as well.

For example, if spillover to the host country has the nature of a near free factor input for the extant multinational in Canada, a competitive advantage viz. the domestic competitor may well arise.

Within the private sector, spillover should logically enter the deliberations of the firm which is marketing the same products in both the U.S. and Canada. This implies taking a "global" view of the advertising budget rather than setting expenditures independently for both the host and donor country markets.

Whether public or private sector, the issue of spillover and its effects on both Canada and the United States is expected to gain rather than diminish in importance given the advent of satellite receiving dishes.

Future research will focus upon a refinement of the

marketing proxies introduced in this study. The objective will not be achieved without difficulties. While governments accumulate detailed information on nearly every other aspect of both American and Canadian corporate behavior, marketing activity is largely ignored -- ignominious treatment for expenditures which run into many billions of dollars per year.

Marketing activity exerts a tremendous impact on the North American economy. The first step to understanding that impact on a "macro" basis is the consistent collection of information regarding the phenomenon. Hopefully, the emergence of macromarketing as a distinct field of academic endeavor will contribute to the redress of government inactivity in this area.

APPENDIX A

VARIABLE SPECIFICATIONS

US-CNRMG The difference between the United States and Canadian relative average percentage market growths.¹⁰

Calculation:

$$US-CNRMG = GUS_i / RGUS_i - GCN_i / RGCN_i$$

where:

$$1. \quad GUS_{i,t} = (VSUS_{i,t} - VSUS_{i,t-1}) / VSUS_{i,t-1}$$

and:

$VSUS_{i,t}$ = dollar value of shipments in the "ith" U.S. industry in the "tth" year.
i = 1 ... 50

$$2. \quad GUS_i = 1/3 \sum_{t=1973}^{1975} GUS_{i,t}$$

$$3. \quad RGUS_i = 1/n \sum_{i=1}^n GUS_i$$

and:

$$4. \quad GCN_{i,t} = (SCDN_{i,t} - SCDN_{i,t-1}) / SCDN_{i,t-1}$$

$SCDN_{i,t}$ = dollar value of sales in the "ith" Canadian industry in the "tth" year.
i = 1 ... 50

$$5. \quad GCN_i = 1/3 \sum_{t=1973}^{1975} GCN_{i,t}$$

$$6. \quad RGCN_i = 1/n \sum_{i=1}^n GCN_i$$

10. The denominators of US-CNRMG are included in order to standardize the individual industry average percentage growth rates by the mean average percentage growth rate of all the industries in the sample. This is done separately for the U.S. and Canadian industries in an attempt to avoid the differing scale effects in the two countries. The U.S. market is many times larger than the Canadian market -- consequently dollar increases in a given U.S. industry market must be many times larger than dollar increases in the Canadian equivalent market in order to produce the same growth rate. Failure to adjust through use of the denominators results in Canadian industry growth rates which appear to be superior in nearly all instances to the U.S. equivalent industry growth rates.

The minuend of US-CNRMG is based on the dollar value of shipments, while the subtrahend is composed of the dollar value of sales. Ideally, one prefers to subtract variables which are based on precisely equivalent measurement scales. In this instance, U.S. "sales dollars" were unavailable, therefore the alternative "value of shipments" had to be employed.

RUSD-USC The difference between the United States and Canadian industry levels of risk.

Calculation:

$$RUSD-USC = 1/2 \sum_{t=1973}^{1975} (GUS_{i,t} - GUS_i)^2 - 1/2 \sum_{t=1973}^{1975} (GMNC_{i,t} - GMNC_i)^2$$

where:

1. $GUS_{i,t}$; GUS_i ; are as previously defined in the variable US-CNRMG.

2. $GMNC_{i,t} = (SUSC_{i,t} - SUSC_{i,t-1})SUSC_{i,t-1}$

and:

$SUSC_{i,t}$ = dollar value of sales of U.S. multinational corporations in the "ith" Canadian industry in the "tth" year.

$i = 1 \dots 50$

3. $GMNC_i = 1/3 \sum_{t=1973}^{1975} GMNC_{i,t}$

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PUBLIC POLICY TOWARD MARKETS: AN INSTITUTIONAL APPROACH

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INTRODUCTION

As the *Journal of Macromarketing* has stated,

The impact of society on marketing systems and actions occurs in two basic ways. First, the normal cultural and social evolution of a society influences the operations of market systems and micromarketing action. Second, public policy is designed to affect either the environment or societal consequences of marketing actions.¹

In this paper, we are concerned with the second; note, however, that the two "interactions" between society and marketing systems are difficult to separate. Even in a totalitarian state, "normal cultural and social evolution" influences the public policies which then affect marketing actions. Thus, political scientists and sociologists have given considerable attention to the process by which societies develop public policy. In *Politics and Markets*,² Charles Lindblom identifies the major methods of social control: authority, exchange, persuasion, morality and tradition (custom). Authority, i.e. most of what we call public policy, is difficult to establish and expensive to administer. Furthermore, in societies that value the rights and freedoms of individuals, there are strong preferences for restricting the use of authority. A central postulate of democratic theory, therefore, is that authority ought to be employed only when other methods of social control fail. Therein lies the logic of the organization of this paper.

Of the five types of social control, we are concerned primarily with the interaction between authority and exchange. Implicit in this approach is our agreement with Lindblom that moral codes and tradition are not very effective control methods in modern societies. We are less certain about the effectiveness of persuasion (i.e. preceptoral control), but shall in any case not explicitly incorporate persuasion into the discussion.

It is our view, then, that the relationship between public policy and markets (i.e. between authority and exchange in Lindblom's terms) can be characterized in the following way. In a market economy, the authority of the state is employed to create and protect the property and other rights requisite to market exchange. Individuals, acting alone or in voluntary association, produce, exchange and consume goods and services. So long as these "private" actions are consistent with social values and goals, there is a strong argument against "public" intervention. If "failures" occur, however, authority is employed to correct them (by modifying existing markets, creating new markets, or substituting authority for markets). But as markets sometimes fail, so too do political remedies. We must choose, alas, among highly imperfect institutions; we make these choices in the belief that, in any particular set of circumstances, one method of control may produce better results than any other.

In this paper we present a conceptual scheme for identifying and classifying the effects, and interactions between, exchange and authority as methods of social control. Our approach in this endeavor is institutional, in the spirit of Johan Arndt's proposal in the *Journal of Macromarketing*.³ In succeeding sections we offer an analysis of the nature of markets, a typology of market failures, and a typology of regulatory remedies. For the sake of brevity, we have not included a typology of regulatory failures, but

do conclude the paper with a general discussion of ways in which the public policy process, and the contents of public policies fail to achieve socially desirable results. We trust that this system of classification is helpful in understanding the relationship between public policy and marketing systems, and in the analysis of micromarketing and public policy decisions.

THE NATURE OF MARKETS

Though democratic societies may have a strong value preference for relying on private exchange as a method of social control, markets do not exist in a "state of nature"; they must be created. Unless there is a system for creating and protecting property rights, one has nothing to exchange (or at least one is constantly threatened by involuntarily loss of the potential objects of exchange).⁴ Furthermore, in a developed economy, where exchange is seldom extemporaneous and often complex, the state must provide a set of contractual rights and system of enforcing them. Even the most extreme libertarian grants these as legitimate functions of the state. What is important to our argument is that these political acts are inherently regulatory in nature, if not in intent; that is, the way in which property and contract rights are (or not) defined has enormous consequences for the actions of market agents and outcomes of market transactions.

The role of the state in creating markets is critical to our understanding of market failures. In many cases, failures result not because a market is not working properly, but because the market does not exist, is incomplete, or is presently constrained by regulation. Thus, we need to distinguish between the inherent limits of markets and the failures of existing markets. If the failures are inherent in market exchange as a method of control, that suggests using a nonmarket solution. If the failure is one of existing markets, one option is to extend, or modify, existing

property, contract or liability rights.

Before proceeding with a typology of market failures, it may be helpful to present a very brief typology of markets, for three purposes. First, in order to understand precisely the nature of any given market (or regulatory) failure, we must identify the type of market in which it occurs. Second, even this cursory review should remind us of the extraordinary reach and complexity of markets in advanced societies. Third, it helps us to appreciate the difficulties of designing and implementing appropriate regulatory remedies, given the enormous range of circumstances (i.e. types of markets) in which market failures can occur, and to which public regulation must respond.

We can classify markets along three dimensions: the subjects of (or parties to the exchange, the object(s) of exchange, and the medium of exchange. Along the first dimension, we can identify the following types of subjects (either individuals, households or organizations) to exchange relations: consumers (those who consume or use the objects exchanged); producers (those who produce the objects exchanged; intermediaries and agents (those who neither produce nor consumer but rather mediate or facilitate the exchange process. Along the second dimension, we can classify the objects of exchange as: factors (e.g. labor, capital); intermediate goods or services (i.e. objects bought for use in the production of other goods or services); or final goods or services (i.e. bought for consumption).

By medium of exchange we mean to characterize the nature of exchange relationship, i.e. the "medium" through which exchange occurs.⁵ Though this dimension is a continuous variable, it is helpful to treat it as discrete, with six categories:

- (1) auction markets: in the ideal case, the identities of the buyer and seller are unknown to each other; a "disinterested" auctioneer simply matches up buy and sell orders; terms of trade do not take

account of past or future transactions (e.g. commodities, securities markets).

- (2) bidding markets: like auction markets in some respects, but with one crucial difference, the auction is conducted by either the buyer or the seller, who is therefore not a disinterested intermediary (e.g. oil leasing, government procurement).
- (3) relational markets: there is a personal (if impersonal) relationship between the buyer and seller, who "meet" in person, by phone or by mail; furthermore, by relational, we mean that the terms and conditions of any single transaction are influenced by prior or potential transactions between the same parties (e.g. retail goods and services markets).
- (4) contractual markets: there is a contractual relationship between buyer and seller which transcends a single transaction, but which is limited to one or a few objects of exchange (e.g. long-term supply contract).
- (5) franchise markets: there is a contractual relationship between buyer and seller which transcends a single transaction and covers a wide range of goods and/or services, including supplies, advertising, architectural services, financing, management services (e.g. retail franchises).
- (6) obligational markets: there is a contractual relationship between buyer and seller spanning a period of time; the conditions of exchange include provisions that shift the locus of control over, but not ownership of, the object exchanged to the buyer (e.g. employment contracts, which give the employer authority over the employee; equity investment, in which the shareholder gives control over the use of the capital to managers).⁶

There is one other characteristic of markets which is critical to our analysis of the authority-exchange relationship, namely their interconnect- edness. Not only does each market have its own institutional characteristics, rich and complex, changing and developing over time. Each of these markets is also connected to many other markets, some in a direct fashion, more in indirect ways. Just as the intended, beneficial conse- quences of market outcomes are transmitted across markets, so too are market failures. Accordingly, in analyzing and deciding public policies toward markets, we must take explicit account of these interdependencies. These inter-market effects may be classified as horizontal or vertical. For example, undue bargaining power in a labor market clearly affects the prices

of the products of the producers, and thereby the sales of complementary and substitute goods and services. Thus, public policies can, and often do, attempt to remedy failures in one market by modifying outcomes in related markets. By the same measure, public policies directed at correcting a failure in one market will have side effects in other markets.

TYPOLOGY OF MARKET FAILURES

As there are strong value preferences for one method of social control over another, so there are value preferences about how each of these control methods ought to work. Thus, there are social norms about a "fair" exchange and a recognition that certain conditions must apply, more or less, in order for a control method to work "the way it is supposed to." In the case of market exchange, this ideal type is the perfectly competitive market, which specifies the following conditions for market "success":

- (1) perfect competition: subjects to the exchange should have relatively equal bargaining positions (i.e. neither should have power over the other);
- (2) perfect information: subjects should be fully informed about the object of exchange and about other exchange possibilities (e.g. the prices and product attributes of substitutes);
- (3) absence of externalities: all of the consequences of the exchange process (including pre-exchange production and post-exchange consumption or use) should be internalized in the exchange;
- (4) divisibility: the object of exchange must be divisible into exchangeable units;
- (5) excludability: the subjects of exchange can exclude non-subjects from the benefits of the exchange;
- (6) zero transactions costs: there are no barriers to exchange, so that the market instantaneously "clears" at a price that equilibrates current supply and demand conditions;
- (7) zero entry barriers: there are no long-run supply constraints which inhibit additional production when demand exceeds supply in the short-run;
- (8) economic rationality: subjects to the exchange act to maximize their individual self-interest, as measured in materialistic terms

(i.e. utility maximization by consumers, profit maximization by producers);

- (9) fair distribution of wealth and income: distribution of economic resources available for exchange is consistent with social consensus of fairness; in a market economy, that means that each individual has wealth and income corresponding to his production of economic goods and services.

These are ideal conditions which never literally hold true in any market; there is considerable controversy regarding the extent to which these conditions typically hold true in markets. Indeed, this difference in opinion is a major component of political ideology: the libertarian believes markets are almost always nearly perfect, whereas the liberal (as the term is presently employed) believes that markets are often fundamentally flawed. Hence, the libertarian favors exchange over authority as a control mechanism, while the liberal often favors authority over markets.

We prefer holding the ideological debate to one side, in favor of an analysis of market failures, which we now define as follows: by market failure, we mean the extent to which the ideal conditions of market exchange do not hold in any given exchange transaction. In our typology of market failures, we specify the nature of market failures as they relate to the ideal conditions of market exchange. Although we have attempted to develop a typology which is unambiguous, inclusive and mutually exclusive, we readily acknowledge that any particular outcome or consequence of market exchange may be classified in a number of different ways.⁷

1. Imperfect Competition

In order for market exchange to function well as a method of social control, subjects of exchange cannot have unequal bargaining positions (since we assume that self-interest would cause them to exploit that bargaining advantage, resulting in unfair terms of exchange). Though we might measure bargaining position or power directly, we can, more easily infer it

from the structure of the market, that is the number and size distribution of buyers and sellers in the market, and the conditions of entry into and exit from the market. The classical definitions of industrial organization identifies those market structures in which market failures are most likely:

a. **Natural monopoly:** due to economies of scale (or scope in a multi-product producer) relative to total market demand, only one (or a few) producer(s) can produce at minimum cost; thus, either too many firms will produce at too high costs, or too firms will exist in the market. Examples: electric utilities; postal services; highway system.

b. **Monopoly(sony):** though not achieved by economies of scale, one seller(buyer) has power in the exchange because it is the sole available subject to exchange. Examples: libertarians argue that the only monopolies are created by government; liberals argue that there are no monopolies only because the antitrust laws have prohibited them; in any event, we can think of no clear cases of monopoly which are not based on economies of scale.

c. **Oligopoly(sony):** whether natural (economies of scale) or not, sellers(buyers) have power in the exchange because there are too few sellers (buyers), who act interdependently. Examples: oligopoly: highly concentrated consumer and capital goods markets; oligopsony: labor markets in which a few employers account for a large share of total employment.

d. **Monopolistic(sonistic) competition:** even though there are a large number of sellers(buyers), they have some power over buyers(sellers) because transactions costs inhibit competition. Examples: retail markets in which shopping costs are high relative to the total transaction value (e.g. convenience goods).

2. Excessive Competition

If supply or demand fluctuates unpredictably over time, there may be

excessive entry by producers during peak demand, resulting in excess capacity during offpeak demand. Furthermore, if capital is specialized, supply adjustments may take longer than the duration of the fluctuation, prices will be driven below long-run average costs. Or, if storage costs are high, producers may sell output below costs to avoid those costs. In addition to the instability in supply and loss of income by producers, excessive competition may induce producers to reduce the quality of their service, perhaps with jeopardy to consumers. Examples: agricultural markets (e.g. the hog cycle); trucking and airlines (pre-regulation).

3. Anticompetitive Conduct

Because of the potential economic gains, sellers (buyers) may commit acts in concert with (collusion), or against (predation) other sellers in order to enhance their position in the market. In the short-run these acts may raise (collusion) or lower (predation) prices and correspondingly reduce or increase output relative to the competitive levels. By modifying the market structure, both collusion and predation raise prices and reduce output in the long-run. There is one other class of anticompetitive behavior, "unfair trade practices," (e.g. misleading advertising) which we treat as an informational failure, rather than a competitive failure.

4. Imperfect Information

In order for markets to work well, subjects to exchange must be fully informed about the object of exchange and about conditions and objects in other markets, information is perfect and costless. In highly localized, pre-modern economies, buyers and sellers may have had something approaching perfect information. But in developed economies, with geographically dispersed markets, complex goods and services produced by very large, anonymous organizations, and many available substitutes and complements,

information is highly imperfect and very costly. There are several distinct type of information failures:

a. **Bounded rationality:** even if information were costless, it would not be perfect, in that information has value only if the subject has the knowledge needed to use the information. Given the limits of individuals to analyze, store and retrieve information, we can predict that many exchange transactions will not be "fully informed." Example: prescription of surgical services by doctor (seller) when patient (buyer) lacks knowledge required to assess needs for, or benefits of, those services. Closely related to bounded rationality is the problem of "cognitive dissonance," which causes individuals to fail to acknowledge (or even "receive") information even when presented to them. Example: consumers who will not accept scientific evidence of the health effects of smoking.

b. **Information costs:** even when information is readily available, it is seldom costless. Because of the costs of obtaining information, subjects to exchange often act without full information. The problem is most serious when the costs of information are high relative to the total value of the object of exchange. Example: consumers choosing "randomly" among packaged products because they have incomplete information about the contents; or consumers exhibit brand "loyalty" in order to avoid the costs of searching for an alternative brand.

c. **Assymmetric information:** because there are economies of scale in the collection, storage, retrieval and analysis of information, subjects who engage in many exchanges involving the same object will typically have an information advantage. Thus, because producers typically sell more of a given object than consumers buy, there often exists an assymetry between producers and consumers. Moreover, self-interest causes producers to

exploit this information advantage in the exchange process. Note two important exceptions to this rule of asymmetry. In industrial markets, purchasing agents specialize in particular goods or services, so the buyer may have better (or at least as good as) information than the seller. In factor markets, buyers may have considerably better information about working conditions (e.g. toxic fumes or hazardous machinery) than the seller of labor services; or about the financial condition and prospects of the company than the seller of capital.

d. **Misinformation:** because information is costly but often essential to exchange, subjects have economic incentives to provide information to other potential subjects to exchange. Sellers advertise and promote their products by providing information about the attributes of its products, and the ways in which it satisfies buyers needs or wants. Sellers also provide information about the offerings of other sellers, either explicitly (as in comparative advertising) or implicitly (as in persuading consumers to buy one class of objects rather than another). Unfortunately, sellers also have economic incentives to misinform potential buyers about their products or the products of others. For the very reason that buyers lack information about the relative merits of available products, they are often unable to distinguish good information from bad information. Examples: sellers use advertising to create the impression of product differentiation (and a corresponding willingness to pay higher prices) for homogeneous products; professionals advise clients to purchase services not needed by the buyer; employers mislead workers about the health effects of workplace pollution; managers mislead shareholders about the terms of an acquisition offer.

e. **Lack of information:** as human knowledge is limited, important information about a product does not exist. The fact that both seller and buyer are equally ignorant is of no relief in such cases. This problem is

especially relevant to the negative attributes (or side effects) of objects of exchange. Examples: long-term effects of therapeutic drugs; effects of asbestos on workers' health.

f. **Information as object of exchange:** when information is itself the object of exchange, there are severe limits as to what information about the product can be revealed without revealing the product itself. Furthermore, once revealed, the cost of reproducing information is often so low that the producer of the information has difficulty internalizing the value of his product. We will discuss this issue further under the heading, "public goods."

5. Side Effects

All goods have their bads, in their production, their consumption, or both. Sometimes those side effects accrue to subjects of the exchange (internalities); often they accrue to individuals not subjects to the exchange (externalities). In either case, market exchange is faulty because the terms of exchange will probably not incorporate all of the consequences of the production and consumption of the object of exchange.

a. **Internalities:** if the side effects are born by a subject of exchange (e.g. the consumer of the product or the provider of labor services), and there is no information failure (i.e. the subject is aware of the side effect and incorporates that information in the exchange terms), then there is no immediate market failure. But the side effect is often transmitted through other markets; if, for example, the side effect raises health care costs but insurance premiums are not sensitive to the higher risk, then the externality is externalized in the form of higher premiums to other individuals.

b. **Negative externalities:** when negative side effects of production or consumption are born by non-subjects, resource allocation will be distorted by overproduction and overconsumption. Examples: pollution by manufacturing plants, automobiles or smokers; "reckless" driving; transmitting contagious diseases due to improper sanitation by providers of personal care services.

c. **Positive externalities:** when some of the positive effects of production or consumption are realized by non-subjects, underproduction and underconsumption result. Examples: inoculation against contagious disease reduce the probability of incidence to the uninoculated as well as the inoculated; education (presumably) benefits all members of society, in addition to the person consuming the education.

6. Public Goods

In order for exchange to function well, the objects of exchange must be "private," in the sense that they are divisible into exchangeable units and that non-subjects can be excluded from the benefits of exchange. By public goods, we mean economically valuable goods or services that are characterized by indivisibility and nonexcludability. When goods cannot be privatized for these reasons, exchange fails because of the "free rider" problem. Though individuals would benefit from the provision of the good, none has an adequate incentive to purchase the good; no one individual can afford to purchase the entire (indivisible) good, but if enough others purchase the good, the non-purchasers can still enjoy the benefits. Examples: street lighting; urban "green space"; national defense.

As already noted, information is a most important class of public goods. Intellectual products (e.g. books and articles), inventions, and production "know-how" (i.e. trade secrets) are all instances of public goods which are characterized by indivisibility and nonexcludability. When

information is an important attribute of an object of exchange, markets fail because "free riders" can obtain the value of the product without buying from the owner. Brand names and corporate goodwill are instances of public goods from which arkets cannot exclude other subjects (e.g. competitors) from realizing the benefits.

Two additional features of public goods should be noted. First, there is seldom an absolute barrier to excludability; rather there would be a waste of economic resources in excluding non-purchasers (e.g. shading, directing, or placing street lighting to privatize the benefits). Second, by definition of indivisibility, the marginal costs of providing the good to consumers is (until a congestion point) near zero. So, although we could use pricing to limit entry to parks, it would violate one norm of competitive markets: that price reflect the marginal social cost of production.

7. (De)merit Goods

The normative theory of exchange assumes that individuals are economically rational: that individuals are capable of knowing what is "good for them" (or "bad for them") and act accordingly. Upon this premise are based the principles of individual freedom and consumer sovereignty. In all societies, however, there exist value conflicts between individual and social preferences about economic goods and services, often because the production or consumption of economic goods runs counter to non-economic (e.g. religious or ethical) social values. Markets are not capable of providing optimal allocation of resources if social, rather than personal, values are used as the welfare criterion. So, although "black markets" work exceedingly well, markets fail as a means of social control by providing too many "demerit" goods and too few "merit" goods. Examples of demerit goods:

gambling; alcohol or tobacco consumption. Examples of merit goods: education (even if there are no externalities, society believes that individuals are "better off" with an education, whether or not the individual is of the same opinion).

8. Rents

While exchange is premised on the existence of scarcity (if all goods were limitless, there would be no need to exchange), the normative theory of exchange assumes that, over the long-run, there are no inherent limits to the production of any particular object of exchange. Indeed, one chief attribute of markets is that prices send signals to potential producers indicating the need for additional production, inducing entry, capacity and returning the market to equilibrium. Markets fails when there exists a long-run inelasticity of supply, preventing production from expanding sufficiently, so that existing producers realize prices exceeding the competitive level. Whereas monopoly profits results from an inelastic demand curve (which by definition indicates that the market is not perfectly competitive), rents are attributable to an inelastic supply curve. Examples: petroleum, natural gas extraction; urban land markets.

We should note here that scarcity-induced rents are very often generated by authority, rather than market failures. In these instances, there are no natural limits on the factors of production (or at least those limits would be reached at a higher level of output). Rather there are regulatory constraints which prohibit or inhibit access to, or use of, the factors required to increase production and eliminate rents. Examples: housing rents due to zoning laws which restrict the density of housing units; petroleum extraction rents due to limiting access to oil reserves.

9. Maldistribution of Income and Wealth

Exchange is a method of allocating and distributing resources: how much of which goods get produced and by whom are they consumed. Allocation is the domain of intermediate and final goods and services markets, while distribution is principally controlled in factor markets. In a market system, society believes that income - personal control of exchangeable goods and services - ought to be a function of the individual's economic contribution to society. But our ethical system also believes that each person has an inherent value, quite apart from his or her economic worth. Thus, markets fail when there is an incongruence between economic and social value, or when income does not reflect true economic value.

a. **Failures in factor markets:** as already noted, all of the market failures classified above exist in factor markets. When they occur, there is a misallocation of resources (too many objects will be produced if the workers are underpaid due to bargaining power of the employer) and a maldistribution of income.

b. **Discrimination:** one particular factor market failure is discrimination, which violates the normative standard that subjects are economically rational (i.e. personal attributes of subjects should have no effect on the terms of exchange). When discrimination occurs, individuals may be unable to sell their labor services, or may have to sell them at a less than fair price. Discrimination also occurs in labor-related consumer markets, such as schools and universities. When the sellers of educational services discriminate against potential consumers on non-economic grounds there is a misallocation of educational resources and the possibility of losses in income-earning potential by those discriminated against.

c. **Social v. economic value:** even if factor markets were perfect, individuals might not possess sufficient economically valuable resources to

earn an income which is consistent with social values. There are three main classes of individuals for whom this is likely to be true: children, who have yet attained economic value; disabled, who for reasons of physical or mental impairment have limited economic value; and elderly, whose economic value has declined due to age. There may also be cases where individuals earn more than what society deems the individuals are worth; examples: highly paid celebrities or corporate executives.

d. **Intergenerational transfers:** one other source of distributional market failures is attributable to differences in interpersonal transfers of wealth. Here there is a conflict between the norm of individual freedom (control over the use of resources includes the right to give them to others) and the norm that individuals' income should reflect their own economic contribution to society. Note that these transfers include services (e.g. a "good upbringing" which enhances income-earning potential) and tangible assets (e.g. a money inheritance).

In Table 1, we have summarized our typology of market failures. Though authority is used for many purposes other than correcting or modifying market failures, it is unarguably a very common reason for public intervention into private actions. Those interventions include an enormous range of "remedies," to which we now turn.

TYPOLOGY OF REGULATORY REMEDIES

Since markets cannot function without a system of property and contract rights, there are no pure market economies.⁸ What we mean by a "market economy" is that society has a strong value preference for using exchange as the method of resource allocation, distribution and social control, and that markets are in fact the predominant means of social control. Conversely,

Table 1: Summary of Market Failures

<u>TYPE OF FAILURE</u>	<u>NATURE OF FAILURE</u>	<u>EXAMPLES OF FAILURE</u>
IMPERFECT COMPETITION		
Natural monopoly	Economies of scale	Electric utilities
Monopoly(sony)	Bargaining power	Standard Oil (pre-1912)
Oligopoly(sony)	Interdependent conduct	Tobacco
Monopol(son)istic competition	Transaction costs; excess capacity	Retail sale of convenience goods
EXCESSIVE COMPETITION		
	Fluctuating supply/demand	Trucking
ANTICOMPETITIVE CONDUCT		
	Collusion; predation	OPEC cartel; AT&T:MCI
IMPERFECT INFORMATION		
Bounded rationality	Uninformed exchange	Professional services
Information costs	Uninformed exchange	Brand loyalty
Assymetric information	Unequal bargaining	"Lemons"
Misinformation	Misinformed exchange	Bleach
Information as the object of exchange	Disclosure of product causes loss of value	Inventions
SIDE EFFECTS		
Internalities	Transmittal of costs to non-subjects	Health effects of tobacco
Negative Externalities	Overconsumption; costs imposed on non-subjects	Air pollution; communi- cable diseases
Positive Externalities	Underconsumption; bene- accrue to non-subjects	Innoculations against communicable diseases
PUBLIC GOODS		
	Indivisibility; nonex- cludability; zero MC	Street lighting; parks; national defense
(DE)MERIT GOODS		
	Divergence of private wants, social values	Education; (gambling)
INCOME MALDISTRIBUTION		
Factor market failures	Any of above	Employee discrimination
Economic v social value	Earned income not equal to social worth	Children; disabled; "superstars"
Intergenerational transfers	Inconsistency with value that income be "earned"	Inheritances; "socially advantage upbringing

there is no economy without markets, but "non-market" economies are those in which there is a normative preference for using authority, tradition or persuasion, rather than exchange, as the primary means of social control.

We have already assumed that ours is a market society in that there is a preference for "market solutions." But that leaves an enormous range of differences over the extent to which, and the actual cases in which, authority will be used to create, modify or substitute for markets. As markets are exceedingly varied and complex, so too are the instruments of authority. Furthermore, there are few cases in which a single type of authority is employed; regulations, like bananas, come in bunches. In any particular market there is a nexus of rights and regulations which affect the subjects, objects, medium or terms of exchange.

As background to our discussion of the types of regulation, there are several important dimensions of authority worth delineating. The first dimension is a continuum from "private" to "public" exercise of authority. Perhaps the most private of political institutions is the family, in which certain individuals have authority over other individuals, as a consequence of public policy and private economic power. Next, there are private associations, to which the members "contract" certain elements of authority, but only under the auspices of a more general social contract (e.g. rights of religious association, labor unions, or private property associations). In some cases, however, the state can make membership in these private association mandatory (i.e. as a condition of having an exchange relationship (as in "closed shops" in labor markets, or membership in professional societies as a condition for selling the corresponding professional services. In some cases, "private" associations are assigned regulatory functions by the state, giving them a quasi-public character (professional licensing bodies). Finally, even at the public level of authority, one can distinguish regula-

tions by the scope of the political authority (as in city, county, state, regional and national governments). In some cases, political jurisdiction have inherent rights under the prevailing social contract (the national and state governments). Other units of government do not have sovereignty, but have been delegated their authority by some higher level of government (city charters granted by states).

Along a second dimension of political authority lie regulatory instruments which are more or less compatible with exchange. Though continuous, we can distinguish five discrete categories:

- (a) market creating: public policies designed to create markets, by establishing rights, incentives and opportunities for exchange;
- (b) market facilitating: policies which promote or improve the operation of markets by reducing transactions costs, enhancing incentives or internalizing benefits and costs;
- (c) market modifying: regulations which attempt to change the conduct of subjects, the objects, medium or terms of exchange, in order to produce outcomes different from those the market would otherwise produce;
- (d) market substituting: policies which create substitutes for markets, in which instruments of political authority are used to allocate or distribute resources or control conduct of individuals or organizations outcomes are achieved, but by the exercise of authority, rather than by exchange;
- (e) market proscribing: policies which attempt to prohibit exchanges by particular subjects or of particular objects, with no attempt to use authority as a substitute method for achieving a given outcome; rather, authority is used in an effort to prevent that outcome from occurring.

A third dimension along which policies differ is their respective degree of coercion or compulsion. At one extreme, there are laws or policies which carry virtually no compulsion, because they are superfluous (i.e. people would have acted in the legally prescribed way with or without the law; unenforced (for lack of adequate enforcement capacity, prosecutorial discretion) or social consensus that it is a "bad law"); or though enforced,

the sanctions imposed are not sufficiently severe to have much effect on conduct. At the other extreme, policies can be extremely coercive, when enforcement and sanctions are highly effective and the conduct prescribed or proscribed by the law is greatly different from individual preferences. Most laws, of course, lie in that middle ground in which individuals' conduct is modified, but with no great sense of loss of personal freedom due to a high degree of compulsion. When categorizing policies with respect to coerciveness, it should be noted that laws often require us to do what is good for us and others; we are happy to comply with the law, and happy to have the law so that others will comply as well (e.g. traffic laws).⁹

These three dimensions of authority, the degree of publicness, the degree of compatibility with exchange, and the degree of compulsion, explain much of the ideological battle over the use of authority in general, or the selection of public policies in particular. Libertarians prefer instruments of authority which are more private, less public; most compatible with markets; and least coercive. Conservatives tend to prefer policies which protect prevailing property interests (whether compatible with markets are not) and that are coercive (e.g. heavy penalties for socially unacceptable behavior). Liberals tend to favor public authority instruments which constrain, replace or limit the scope of exchange. One might characterize the recent wave of "neo-liberalism" as a shift in liberal thought toward public policies which are more compatible with, rather than hostile toward, market exchange and private incentives.

In recognition of these ideological implications, we have attempted to order our typology of regulatory remedies, both across and within categories, along these three dimensions. Thus, we have arranged policy instruments from most to least compatible with markets, from most private to most public, and from least to most coercive. This is done for the sake of

logical organization, not necessarily as a reflection of our own ideological preferences.

Before proceeding with the typology, we offer one additional comment: the meaning of "regulation" in a society is a function of its historical usage. We all know that the Federal Trade Commission regulates, but we do not typically think of the Department of Motor Vehicles as regulating, though it just as surely does. In our system of classification, we have not been constrained by the limits of ordinary language; we do think that logical analysis supports our view that regulation is generic and exceedingly broad in scope and effect.

1. Legal Rights

In a market-oriented economy, legal rights are essential for the creation and functioning of markets. The definitions of these rights sometimes determine whether exchange will even occur; more often, they effect the terms of exchange. They do so by designating property that can be exchanged (property rights) and are protected (criminal law); assigning transactions and compliance costs (contract rights); defining liability for intended or unintended consequences of exchange (liability rights); allowing, facilitating or denying associational rights (corporate law, collective bargaining rights); delineating the range of applicability of the rights; and establishing the rules of evidence, proof, proceeding and standing (civil and administrative procedural rights and due process rights).

In the American legal system, these rights are defined and protected through a hierarchy of common, administrative, statutory and constitutional laws. All of these evolve historically, which is to say that precedence and tradition are powerful determinants of legal policies and their interpretation by legislative, judicial, executive and administrative agencies. The

continual redefinition, expansion or contraction of legal rights reflects prevailing social consensus, legal and political theory and the perceived effects of current and potential definitions. Although legal instruments of authority are seldom selected solely on the basis of their effects on exchange relations, it is undeniable that they have important exchange-regulatory intent and consequences.

2. Information Remedies

Authority can be used in a variety of ways to generate and disseminate information. Within this category, there is a hierarchy of remedies which merely create or extend markets, to those which inhibit markets in information, to those which substitute public for private provision of information.

a. **Information markets:** by means of property rights (or exemptions from liability), authority can be used to facilitate private markets for information, in which individuals exchange for the information needed to make rational decisions in other exchange transactions (Consumer Reports). Policies can also facilitate the voluntary, private provision and production of information by exempting such activities from general proscriptions against cooperation among competitors (Better Business Bureau).

b. **Disclosure:** authority can require disclosure of information by the possessor of the information. This typically means that subjects to exchange must provide information regarding the object or terms of exchange. Variants of disclosure requirements include: (a) making information available upon demand (allowing workers to inspect health and safety records); (b) public reporting (filing 10-K financial statements); and (c) specific disclosure (packaging or labelling laws). The required content of disclosure may range from very narrow (sugar content of foods) to very broad (all known attributes and side effects of a therapeutic drug). Authority can

also be used to prevent private associations from inhibiting the flow of information (e.g. recent FTC rulings that prevent professional societies from banning price advertising in their professional codes of "ethics").

c. **Protection of information:** because of the public good aspects of information, authority can be used to prevent the collection or dissemination of information. These remedies include protection against unwarranted intrusions into personal affairs (rights of privacy, confidential records); proscriptions about the accuracy of information content (personal or corporate credit reports); or use of the information without the agreement of the "owner" of the information (patents, trademarks, copyrights, trade secrets).

d. **Public provision of information:** political authority can also be used to actually provide information about the subjects, objects or terms of exchange, to the general public or to specific audiences. The public provision of information can take the form of general distribution through public media (automobile safety records and crash test results); distribution of materials on request by individuals (consumer buying guides); or mandatory consumption of information by individuals in government institutions (public health information in public schools).

d. **Production of Information:** government can regulate information by requiring private parties to produce (or producing itself) information which might not otherwise exist. Required product testing by private parties or government agencies is the most prominent instance of information production by exercise of authority.

3. Standards Remedies

Even if information were free, human rationality is limited, so information is unlike other goods: more is not necessarily better. In complex

market economies, the frequency and complexity of exchange generates "information overload". In recognition of these limits, authority is employed to reduce the need for information by creating standards applicable to exchange relations. By indicating that the object of the standard meets or exceeds some threshold level on one (or more) attribute(s), subjects of exchange need less or no information about that attribute.

Unfortunately, standards are so varied and complex that they can not be reduced to a linear hierarchy of types. Rather, we identify the several main dimensions on which standards differ, and identify discrete categories of standards on each of these dimensions.

a. **Compliance:** standards can range from purely voluntary ("uniform" package sizes) to highly mandatory, meaning that products which fail to meet the standard are excluded from legal markets (milk standards).

b. **Object of the Standard:** standards can be applied to the producers (professional certification or licensing); the production process (workplace safety standards); the product (auto safety standards);¹⁰ the consumption process (highway speed limits); to consumers (driver's licensing); or complementary goods or services (highway safety standards; lead content of gasoline). The oldest use of standards regulates the quantities, rather than qualities, of goods exchanged (standard weights and measures). In traditional regulation (the "regulated industries" in transportation, communications, energy distribution and financial services), authority is used to comprehensively regulate the production and provision of goods and services, although we sometimes separate responsibility for "quality" regulation from "quantity and price" regulation between agencies (Federal Aviation Administration regulates airline safety, while the Civil Aeronautics Board regulated entry, exit, quantity and price of service).

c. **Source of standards:** we can also distinguish standards by the process by which standards are developed, promulgated and/or enforced. Standards are regularly generated by market processes, of course, we subjects have incentives to "standardize" product attributes even though no authority requires them to do so (as in the growing adoption of CP/M[®] operating systems for eight-bit micro-processors). Authority can be used to promote private contractual standards (legally enforceable exchange terms, as in procurement contracts or collective bargaining agreements); private associational standards (promulgated by industry trade association, privately or publicly enforced, as in SEC-sanctioned standards generated by the Financial Standards Accounting Board).¹¹ Finally standards are promulgated and enforced by public agencies (though usually with private participation), as in public health and sanitation standards for restaurant and personal care establishments.

d. **Nature of standard:** we can also categorize standards as performance or design-oriented. Performance standards establish threshold levels for outcomes, while leaving producers or consumers discretion as to the method of achieving the specified performance (e.g. specifying the units of emittants allowed from a factory). Design standards require that the object of the standard be manufactured or operate in a specific way (e.g. requiring manufacturers to install catalytic converters to control emissions).

4. **Taxes/Subsidies**

There are three general purposes served by government fiscal policies and operations: allocation, distribution and stabilization. Government collects revenues to cover the costs of government, to redistribute income among individuals, and to stabilize prices, full employment and economic growth. Our concern here is with the use of taxes or subsidies as means of

correcting market failures, that is, with the regulatory functions of fiscal policies. In thereby limiting the discussion, we do not mean to suggest that there are not other important functions of taxes and subsidies.

Taxes and subsidies are logically similiar, though of opposite sign. The one logical difference between them as instruments of authority is that, in any given instance, there is almost always a higher degree of coercion attached to taxes than to subsidies. Someone eligible for Social Security payments can simply not request them, or refuse them if offered, with no legal sanction. One does not have the same option with respect to payment of Social Security taxes, however. Having acknowledged this distinction, it will greatly expedite the discussion to treat taxes and subsidies as roughly equivalent instruments of public policy, except that in one case the transfer of resources is negative, in the other, positive.

a. **Form of transfer:** taxes or subsidies can take one of several forms. The most commonly used means of transfer is money (or near-money) payments (as in Social Security). The second form of transfers is stamps or coupons, which can be spent like money, but only for the purchase of specified goods or services (food stamps, educational vouchers). The third form of transfer is through the price mechanism, that is modifying the terms of exchange, so that the subjects pay(receive) less (more) than the market-determined price (senior citizen discounts). If these exchanges are made at a zero price, we can classify them as a fourth form of transfers, namely the direct provision of goods and services (indigent medical services, urban playgrounds).

b. **Method of transfer:** authority can be used directly or indirectly to tax and subsidize. Indirect methods include creating incentives for private, voluntary transfers among individuals and associations (charitable giving promoted by tax deductability). Transfers can also be achieved by regulating the prices of goods and services (long distance telephone users

being "taxed" to subsidize local telephone users). Another indirect public method of transfer is to ration or restrict markets, so to affect the income of factors in the market (subsidizing the domestic auto producers, shareholders and employees by import quotas on Japanese autos). Finally, transfers can be made directly (income taxes, Social Security payments).

c. **Object of transfer:** transfers vary in the object and range of their applicability. One generic class of transfers is directed toward objects transferred in exchange; goods and services are taxed or subsidized, either in general (sales tax) or specific (excise tax). Second, taxes or subsidies can be applied to the side effects of production, consumption or exchange (effluent taxes, emission control subsidies). A third category of transfers is tied to the ownership (rather than transfer) of goods (property taxes. Another generic class of transfers is related to the earnings of factors of production (personal income, capital gains taxes). Finally, transfers can be directed at producing agencies (corporate income taxes, subsidies to mass transit agencies or universities).

5. Controls on Collective Action

Given the nature of the consumption, production and exchange processes, collective organizations are a virtual necessity in modern economies. Collective action has three main purposes: to realize economies of scale in production; to internalize the benefits of productive actions; and to change the balance of power between participants in the exchange process. The state allows and encourages collective action by a variety of regulatory instruments already covered above, including associational rights (as noted in §1 above);¹² surely the most important of these are the rights of incorporation granted to companies and labor unions (including limited liability and equity ownership and transfer rights in the first case, collective

bargaining and grievance procedural rights in the second). Authority also promotes collective action by use of taxes and subsidies (§4 above): by granting subsidies to collective agents (government grants to private social service agencies or research institutes); by exempting contributions to collective from taxation (contributions to charitable agencies are tax deductible, while contributions made directly to "needy" individuals are not); and by exempting collective agencies from taxation (tax exempt status of "non-profit" organizations).

In addition to these regulatory instruments, authority is used to control markets and market failures by directly shaping the structure of markets and controlling the conduct of organizations in the following ways:

a. **Horizontal structure:** in order to affect bargaining positions in the exchange process, authority shapes the structure of competitors (buyers or sellers). While property rights and the rights of incorporation create a presumption that organizations may grow and expand without further approval, authority can be used to specifically deny such expansion when it threatens the competitive process (antitrust laws on mergers and acquisitions). A more restrictive class of structural controls are entry and exit regulation, which strictly limit the opportunity of producers to enter a market, or to exit from it (public franchises in transportation, communications and financial services)¹³ . While authority has been primarily concerned with power within a given market, there are also controls that span markets, since power in one market might give an unequal bargaining position in another market (restrictions on conglomerate mergers, or restrictions on the activities of bank holding companies).

b. **Vertical structure:** all markets exhibit a high degree of vertical interdependence, with goods moving through many successive transactions from

the "original source" to the final consumer. Accordingly, authority can be employed to regulate the vertical structure of markets, especially those which involve economic organizations on both sides of the exchange. Structural controls may specify the conditions under which firms will be allowed to vertically integrate across channel levels, or actually prohibit such vertical integration (statutes on vertical mergers).

c. **Horizontal conduct controls:** in order to shape market structure, authority allows, encourages or prohibits competitors from cooperating in various ways. To promote the flow of information and the establishment of standards, competitors are usually allowed to cooperate in those areas. Cooperation in research and development, investments in productive capacity, or marketing activities may be allowed or denied (joint venture regulations). Because of its onerous effects on bargaining, cooperation on the design of the product or on the terms of exchange (especially price) is often prohibited (Sherman and Clayton proscriptions against "restraints in trade"). In cases where there is a perceived imbalance in bargaining positions, however, cooperation among competitors is allowed, usually by exemption from laws prohibiting such cooperation (antitrust exemptions granted to agricultural marketing cooperatives, the rationale for which is the market failure of "excessive competition"; buying cooperatives).

d. **Vertical conduct controls:** in recognition of the complexity of channels of distribution, the state regulates relations among members of the channel, by allowing acts of cooperation (cooperative advertising); denying other acts of cooperation (boycotts); prohibiting certain restrictions in the terms of trade (resale price maintenance); and limits on discriminatory treatment in the terms of trade (Robinson-Patman proscriptions on price discrimination; provisions in the proposed AT&T consent decree requiring local operating companies to provide "equal access" to competing long-

distance signal carriers).

6. Price Controls

Because prices are so central to the allocative functioning of markets, and so critical to the distributional consequences of exchange, authority is used to influence or determine the prices at which exchanges occur. As already noted, prices may be influenced by the imposition of taxes, or granting of subsidies; and by controls on the structure of markets and the conduct of subjects in markets. In addition, there is class of authority instruments aimed more or less directly at prices themselves, either because other forms of control have failed to produce the desired result, or because price controls are preferred to alternative forms of control.

There are a number of dimensions on which price controls vary, and the number of permutations across dimensions is very large. So, rather than identifying discrete types of price controls, we will discuss the dimensions which characterize any particular control instrument, and attempt to identify the variants on each dimension.

a. **Compliance:** price controls range from purely voluntary (wage and price guidelines); to quasi-voluntary (use of economic incentives to induce particular pricing behavior (the Tax Incentive Plan for restricting wage increases in labor markets); to mandatory (published tariffs in "regulated" industries.

b. **Source of controls:** as with standards, prices can be established, and compliance enforced, in a number of ways. The most private method of price control is private exchange, as enforced by contractual rights (long-term supply contracts). Prices can also be established by private agreement among competitors (producer cartels), although this form of price control is often precluded by controls on collective action (see §5.c.). Authority can

be used to establish or sanction price controls (fee schedules established by professional societies), which means that public authority is employed to enforce compliance with the controls. Price controls can be established by private agencies or association, but submitted to public authority for approval and implementation (state liquor control boards). Finally, price controls can be generated and enforced by public agencies, though usually with procedural rights assuring private participation.

c. **Nature of Controls:** although price controls are always directed at the price terms of exchange, they vary in the manner by which the intended results are achieved. The most market-like forms of price control are related to price information, which exist in all the variants itemized in §2: requiring disclosure (price posting by gasoline stations); precluding private control on disclosure (banning professional code limits on price advertising); and public provision (comparative price studies published by government agencies). Direct intervention in the pricing process include: establishing a zone within which private parties can set prices (the "zone of reasonableness recently adopted by the Interstate Commerce Commission); requiring specific approval of privately set prices (most administrative agencies only approve prices, not actually set them); or establishing the price at which goods or services will be exchanged (postal rates, minimum wages).

d. **Applicability of Controls:** price controls can be applied very narrowly to a specific transactions, or to all transactions between a particular seller(buyer) and its buyers (local telephone rates are seller-specific). More generally, price controls can be applied to all sellers (buyers) in a broad class (motor carrier rates). The most general type of price controls applies to whole sectors of the economy, or even, hypothetically to

all prices in the economy (general price freeze). While price controls are most often applied to goods and services in intermediate and final markets, they can also be used in factor markets (minimum wage laws, interest rate ceilings).

7. Direct Allocative Controls

Prices and rationing are alternative means of allocating or distributing resources. Although rationed goods often carry prices, the defining characteristic of rationing is that exchange is no longer a purely voluntary act by the parties to the exchange: there is some compulsion (in addition to economic incentives at work on either or both sides of the transaction. Rationing can be implemented directly by public agency, or through private exchange transaction channels (public schools v. educational vouchers for private schools). Furthermore, rationing can be positive or negative: they can be used to facilitate the transfer of resources or restrict exchange transactions. We can distinguish the following types of allocative controls:

a. **Price subsidies:** as we indicated in §4.a., subsidies can be granted in the form of stamps or coupons, which can be used along with money in the purchase of specified goods or services. The function of the subsidies in these cases is to increase the ration of those goods to the recipients of the coupons (i.e. relative to their ration under market prices). This form of rationing is not intended to limit or restrict the allocation of goods to non-recipients of the subsidies, though it may have that effect (by increasing the demand for, and therefore market-equilibrating price of, the subsidized goods). It should be noted that this form of rationing may actually be intended to subsidize the producers of the goods, rather than the consumers (hence the support of agricultural lobbies for the food stamp program).

b. **Mandating exchange:** goods and services can also be positively rationed by requiring sellers to exchange with specified buyers (either at a privately negotiated price, or at a regulated price). This form of rationing is commonly employed in public utilities and common carriers, wherein franchised producers are required to provide services on demand to all potential buyers within their franchise area, and at published tariffs. As in price subsidies, the intent of this rationing is to increase, rather than decrease the volume of exchange; it may also have the effect of restricting exchange (some classes of buyers usually pay implicit taxes in order to subsidize the provision of services to customers whose revenues do not cover the cost of service).

c. **Restricting exchange:** in the event of excess demand for goods, allocative controls can be used to restrict production, exchange, and/or consumption of certain goods or services. Under these controls, money alone is an insufficient means of payment; stamps, coupons or some other evidence of "authority" are also required (ration coupons during World War II). Allocative controls can also be applied to factor markets, as in laws regulating hours of employment, or credit allocation.

d. **Proscribing exchange:** the most market-delimiting form of allocative controls is the prohibition of (legal) exchange of goods or services. This form of control is typically directed at those instances in which there is a substantial conflict between market outcomes (in the absence of controls) and prevailing social values (i.e. demerit goods). The most emphatic application of this form of control is embodied in the Emancipation Proclamation, which forbade exchange of human beings, and in the labor laws designed to protect children from exploitation in labor markets. As applied to consumer markets, proscriptive controls apply to goods (dangerous drugs) and services (prostitution). We might add that market responses to these prohibitions

is a rather striking example of the limits of enforcement and level of compliance with acts of authority.

8. Government Provision of Goods and Services

As has been noted throughout the previous sections on regulatory remedies, authority can be exercised by allowing, encouraging or requiring specified conducts or outcomes of private parties, or it can be implemented by the state itself. Depending on the actual configuration of public action, then, authority is more or less consistent with market exchange. When the government is merely providing information which facilitates and improves the operation of markets, there is no conflict between politics and markets. The government can also influence market outcomes by its own actions in the marketplace, as in the use of procurement standards to influence product design (e.g. purchasing government auto fleets with air bags to help auto makers the economies of scale necessary to economically offer them as an option to other customers).

Beyond these market facilitating acts, though, government can be directly involved in markets by substituting for them. Through the use of public enterprise, for example, the government grants to itself the franchise necessary for transacting in that market (postal services). By holding the rights of ownership to itself, government can more or less exclude the enterprise from capital markets and substitute public authority for market control of the firm; along this dimension lie quasi-public enterprises (ConRail, ComSat) and government enterprises (U. S. Postal Service). Having established agencies of government as the provider of goods or services, these agencies differ in whether their output is exchanged through markets with prices (public universities), quasi-prices (user charges such as gasoline excise taxes), or is rationed (social services).

In Table 2, we have attempted to summarize our typology of regulatory remedies to market failures. Again, we repeat our earlier caveat: we are not suggesting that all acts of authority are in fact intended to, much less actually do prevent or remedy market failures. Our argument is that political authority can, is and should be used for such purposes, when circumstances warrant. In the concluding section, we discuss the means and criteria by which decisions as to whether and which type of authority might be employed. We will also return to a broader perspective view of markets and public policies, namely, the aggregate effects of public policies on marketing systems.

PUBLIC POLICY TOWARD MARKETS

Although the motivations and rationale for public policies are varied and complex, one of their chief functions is to police markets: to create, modify, and control behavior and outcomes in market exchange, or to substitute acts of authority for acts of exchange. Political authority is employed in all societies; a society without authority is inconceivable. One of the principle ideals of a democratic society is that the use of authority will be chosen by the members of society acting freely and of their own volition, either directly, through an electoral process (referenda), or indirectly, through elected representation. While we do not deny the existence or importance of altruistic, or "socially responsible" behavior, we assume that individuals act politically on the basis of their own self-interests, however broadly or narrowly they may define them.

In this section, we begin with a review of the criteria for "ideal" public policies, on which available alternatives might be evaluated. We also discuss the means through which public policies are selected and the

Table 2: Summary of Regulatory Remedies (part 1)

TYPE OF REMEDY <i>Response</i>	VARIATIONS	EXAMPLES
LEGAL RIGHTS	Property rights Contracts rights Associational rights Procedural rights Due Process	Land ownership Compliance enforcement Corporate charters Rulemaking participation Corporation as "person"
INFORMATION REMEDIES		
Promoting markets	Protection from liability Allowing cooperative action	Consumer Reports Better Business Bureau
Disclosure	Available on request Public reporting Provision in exchange	Worker health records SEC Financial reports Labelling laws
Content	Specific Comprehensive	Sugar content of food Therapeutic drug insert
Protection	Privacy rights Accuracy of information Agreement of owner	Confidential records Credit reporting Patents, trademarks,
Public provision	Available on request General Dissemination Mandatory consumption	Consumer buying guides Auto safety records Public health education
STANDARDS		
Compliance	Voluntary Mandatory	Uniform package sizes Milk processing
Object of standard	Producers Production process Product Consumption process Consumer	Occupational licensing Food processing Auto safety standards Speed limits Drivers' licensing
Source of standard	Market incentives Private provision Exchange transactions Private collective action Public agencies	CP/M ^o operating system Underwriter's laboratory Procurement standards FASB account principles Restaurant sanitation
Nature of standard	Performance Design	Allowable emissions Catalytic converters
TAXES/SUBSIDIES		
Form of transfer	Money payments Stamps, coupons Discounts Services in kind	Income tax, Soc. Security Food stamps Senior citizens/transit Indigent medical services
Method of transfer	Incentive for private action Internal cross-subsidies Rationing Direct	Charitable deductions Regulated prices Import quotas Income tax, Soc. Security
Object of transfer	Exchanged objects Production process Factors of production Ownership Producing agencies	Sales, excise taxes Effluent charges/subsidies Personal income tax Property taxes Corporate income tax

Table 2: Summary of Regulatory Remedies (part 2)

<u>TYPE(DIMENSION) OF REMEDY</u>	<u>VARIATIONS OF TYPE</u>	<u>EXAMPLES</u>
CONTROLS ON COLLECTIVE ACTION		
Horizontal structure	Prohibiting mergers Public franchise	Sherman Act "Regulated" industries
Vertical structure	Prohibiting mergers	Clayton Act
Horizontal conduct	Limits on investment Limits on collusion Exemptions from limits	Joint venture restrictions Price-fixing Agricultral cooperatives
Vertical conduct	Limits on cooperation Limits on private restraints Limits on differences in terms of trade	Boycotts Resale price maintenance Price discrimination; exclusive dealing
PRICE CONTROLS		
Compliance	Voluntary Incentives Mandatory	Wage, price guidelines "Tax Incentive Plan" Published tariffs
Source of controls	Contractual Private Cooperation Public sanction of associational control Public agencies	Uranium contract case Food marketing coops State liquor boards Public utility commissions
Nature of controls	Price information Allowable price range Public approval of prices Price setting	Posting, public provision ICC zone of reasonableness Public utility commissions Postal rates
Applicability	Seller-specific Class of sellers General	Electricity rates Truck rates; minimum wage Wage/price freeze
ALLOCATIVE CONTROLS		
	Price subsidies Mandate exchange Restricting exchange Proscribing exchange	Food stamps Common carrier obligation Rationing coupons Cocaine; child labor
PUBLIC PROVISION		
	Quasi-public enterprise Public enterprise/prices Public agency/user charges Public agency/rationing	ComSat TVA Highways, universities Social service agencies

ways in which those processes fail. We then review the actual instruments of public policy, as outlined in the foregoing typology. Here, though, we are concerned with the failures of these policy instruments and with the selection of alternative public policies that will more likely achieve their intended objectives, that is, regulatory reform. The basic premise of this discussion is that markets and authority have, in each particular instance, identifiable characteristics and consequences that can be used to select the method of control best suited to human welfare. We conclude with discussions of the effects of regulation on marketing systems, and the role of marketers and marketing research in public policy formulation and implementation.

1. Public Policy Criteria

Though economists typically emphasize economic efficiency as the chief criteria by which public policies ought to be evaluated, there are social and political values which precede efficiency in priority. Society regularly uses methods of organization and control which are not "efficient" in some narrow materialistic sense. Perhaps the best example of inefficiency in a democratic society is an election. Imagine bearing the costs of having millions of people go to the polls when a small random sample of the population could produce the same result at a fraction of the cost, though with some small "margin of error."

a. **Fairness:** In a society that values the individual, certain rights are granted to individuals. These rights are based on traditional, though constantly evolving, political, social and cultural values. While some of these relate to outcomes or "end results," some of the more important values relate to the the means or processes by which the outcomes occur. Thus, even though we could more efficiently obtain the "election result" by means

of sampling, we have elections because individuals have a right to participate in the process by which the result is obtained. While lawyers understand the value (and represent the interests) of procedural and process rights, most economists are woefully ignorant of their importance. We can refer to this nexus of participatory, process and procedural rights as fairness criteria. Note that these rights accrue not only to individuals, but to associations, minorities and majorities of individuals as well. Note also that one of the most important types of process rights relates to markets; we are concerned not only with the outcomes of market transactions, but also with the process of exchange (e.g. "fair" bargaining practices).

b. **Equity:** A second set of criteria for evaluating policies are their economic distributive consequences, or what economists call equity. As we indicated in our discussion of market failures, society holds certain values about what constitutes a fair distribution of income. These values include the notion that an individual should earn his income through provision of socially valuable goods and services, rather than by exploitation of market failures or illegal activities. Society also values the rights of individuals to transfer income or wealth to others, whether through charity, friendship (gift-giving) or familial bonds (inheritance). Recognizing the biological necessity of a subsistence level of income, society also values the rights of individuals to non-earned income, because of age, disability or temporary economic dislocation.

c. **Efficiency:** The third class of welfare criteria is efficiency: the best possible use of scarce resources to fulfill human needs and wants. These criteria include allocative and technical efficiency, and apply not only to market activities, but to the exercise of authority. Hence, by these criteria we evaluate not only the effects of policies on market exchange, but also the efficiency of the policies themselves. In other words,

if two policy alternatives would achieve more or less the same results, these criteria would favor that policy which does so at least cost. A policy evaluation on these grounds would include both the costs of authority (e.g. bureaucratic costs) and the costs of compliance (e.g. costs of public information reporting by corporations).

d. Stability and growth: Finally, policies are evaluated in terms of their effects on economic stability and growth over time. These criteria include social preferences with respect to (1) current versus future consumption (i.e. consuming goods or leisure now versus work, savings and investment); (2) continuity versus change (as in technological innovation which substitutes capital for labor, or forces adaptation to new working conditions); and (3) the periodic disequilibria of market forces versus stabilization of those forces by political intervention.

2. Public Choice Failures

In a democratic society, policies are selected through institutions of public choice: elections, legislatures, judiciaries and executive agencies. As with markets, we can identify the ideal character of these institutions, but we use those ideals as standards against which to measure or compare realities. As markets fail, so do the institutions and instruments of authority. Though the public policy choices are practically inseparable from the institutions by which those choices are implemented, we will concentrate our discussion on the failures of authority institutions.

a. Transaction costs: Public choice is a costly proposition, regardless of the method or object of choice. For this reason, public choices have a natural longevity, the duration of which is determined by a subsequent act of public choice which eliminates, modifies, or substitutes for prior choice. While in markets we often make frequent, periodic choices

(which store to shop at, which brand of soft drink to buy), we make public choices much less frequently. By and large, then, the prevailing policies are the accumulation of prior public choices. As circumstances change over time (either with respect to the conditions in the market or the values on which the policy was premised), we should expect that, even if the policy were once appropriate, it will become less so over time. But because of the transactions costs of public choice, we do not spontaneously change policies in accord with changing circumstances. Instead, typically, public choice responds to those issues where there has grown a substantial gap between desired and actual results (these are termed "high saliency" issues).

b. Electoral failures: Electoral institutions vary widely in size and complexion, and as a rule, how well they function depends critically upon the size of the electorate and the complexity of the choices at issue. The larger the electorate, the less likely the action of any single voter will affect the result. Accordingly, election results are a public good, and the electoral process suffers from the problem of free riders. No matter how or even whether one individual votes, the outcome will be unchanged. So even though elections may have very important consequences for individuals, they have little incentive to become well informed, or even participate in this process of public choice. Indeed, the fact that so many millions of citizens do vote says a good deal about the use of persuasion and other preceptoral sanctions in a mass society.

Even when citizens do vote, elections suffer from a number of failures not unlike market failures. There are very serious information failures: compared to most economic goods and services, public choices are exceedingly more complex. In order for elections to work well, voters must understand the nature and consequences of alternatives votes; such information is

always costly, time-consuming to process, often unavailable, sometimes misleading. Issues of public choice are on occasion so complex that not even the "experts" fully understand the alternatives, much less the electorate.

Another electoral failure relates to the bundling of issues. Though market goods are often bundled (an automobile is a "bundled basket" of fenders, engine, transmission, wheels, etc.), we typically have much greater choice among bundles. In elections, we are usually limited to two (or a small number) of choices: yes or no on referenda, Democratic or Republican representation. Because an elected official will represent his(her) constituency on countless issues of public choice, it is a certainty that there will be differences between the votes of the legislator (or the acts of an executive or judge) and the preferences of any given voter. Thus, bundling forces individuals to make difficult tradeoffs among issues; they may favor one candidate's stand on transportation policy, another on energy policies.

Finally, elections differ most from markets in their inherently collective nature: whereas market actions are an acts of private, individual choice, elections must necessarily be acts of public, collective choice. In markets for private goods, one individual can choose one brand, while someone else chooses another. In elections, we can only have one result: the referendum is passed or defeated, one candidate wins, the other(s) lose. Unless we impose a rule of unanimity (which would make public choice impossible in large electorates), elections results will favor some individuals over others. Indeed, a central feature of the social contract in democratic society is that individuals agree to accept the results of election, even when they lose.

c. Legislative failures: Once elected, legislators ideally act in the interests of their constituency, though that necessarily means acting against the interests of some constituents on any given issue. Moreover,

we assume that legislators are not fundamentally different from other individuals, so we expect them to behave (sometimes opportunistically) in their own self-interest. Given the costs of conducting electoral campaigns, and the need for organized support to overcome information failures, one significant failure is the influence of resourceful, vocal, well-organized citizens on the legislative process. Legislators also suffer from information failures, in that the issues they decide are extremely complex individually, and usually bundled together in legislative "acts." Another failure relates to the representational structure of legislatures; as in the over-representation of rural interests in the Senate (or state senates). Because electoral districts are based on territorially defined jurisdictions (states), citizens in states with small populations have far more representatives per capita than those in populous states (e.g. two Senators from Wyoming, two from California).

d. Jurisdictional failures: Whether public choice is made directly through elections or through representation, it can create externalities not dissimilar to those found in market exchange. Externalities occur because public policies of a given jurisdiction can effect on citizens or activities in other jurisdictions. Examples of these externalities include air or water pollution moving across state lines; "liberal" corporate charter provisions causing companies to incorporate in a state other than the one in which they principally do business; or interstate differences in taxes or subsidies causing personal movement to lower tax or higher welfare states.

3. Policy Implementation Failures

Once policies are selected through public choice (whether in the present or very distant past), they must be implemented to have an effect on private conduct or market outcomes. The legislature delegates responsibili-

ty for implementation to an agency of the government, a quasi-public agency (one with legal powers granted by the state), or a voluntary association of individuals. Although legislative enactments sometimes contain specific provisions regarding delegation, more often acts are implicitly delegated on the basis of general principles (or laws) of delegation. Thus, the implementation of contract compliance provisions falls to the judicial system as a matter of constitutional principle. Sometimes legislative acts create new agencies for implementation of the policies in the act, though even then legislatures are constrained by legal separation of power, jurisdictional rights among units of government, and the organization of those units.

Though there are a very large number of institutional mechanisms for implementing public policies, we will concentrate our attention on three classes: judicial agencies, private associations and public bureaucracies. While all of these suffer from more or less the same generic institutional failures (e.g. information failures, transactions costs, and free rider and agent-principal problems), the manifestation of these failures differs across institutional types. It is because of these differences that we choose one agency of implementation over another in order to minimize the the failures and improve performance and outcomes.

a. **Judicial failures:** The distinguishing characteristic of judicial agencies is that they implement policies by deciding whether parties have, in a given instance, complied with prevailing policies (constitutional, statutory, administrative or common law). The parties engaged in the process can be individuals, associations or other public agencies. Typically, these decisions are made in an adversarial process, which has a number of institutional implications.

First, principals in the dispute (plaintiff or prosecutor, defendant) are represented by agents (lawyers) who receive income for their services. Self-interested behavior of agents often conflicts with the interests of the principals (expending resources to appeal a decision that will surely be upheld). Second, the adversaries in the dispute represent only two of the interests affected by the decision; there are externalities of judicial acts both positive and negative (establishing a precedent that will be used in future cases). One of the most frequently cited failures of regulatory agencies is of this sort: the tendency of agencies to be "captured" by well-organized interested parties, to the exclusion of other interests.

Third, the information available to the decision-maker (judge, jury or regulatory commission) will depend in large part on the evidentiary submissions of the parties, with consequent information failures. Information needed for a good decision may not exist, or it may be concealed. The quality of the information presented is dependent on the representational abilities of the agents and the resources of the principals; if there is an imbalance in abilities or resources, the decision process may not be fair.

Finally, there are inherent limits of judicial decisions (as opposed to executive actions); courts have very limited enforcement capabilities. Though actions can be prevented (injunctions), courts are generally limited to punishing or compensating for acts that have already occurred. When those acts have irreversible, irreparable or otherwise non-compensable consequences, courts can not remedy them.

b. Associational failures: Responsibility for implementing public policies is often granted to private associations. Normally, these delegations of authority involve individuals or organizations with economic interests affected by the policy (professional licensing boards). One critical problem of private authority institutions is, accordingly, the use of autho-

rity in the self-interest of the members of the association without regard to unrepresented interests. This problem is exacerbated by the problems of bounded rationality and asymmetric information. The costs or benefits of authority are usually distributed very unevenly (e.g. the benefits of milk price supports accrues mainly to a few hundred thousands of producers, while the costs are borne by tens of millions of consumers), In these circumstances, it is quite rational for one group of individuals to devote their time, energy and resources to the formation and implementation of authority, while the other group ignores the situation.

Another class of failures of private action relates to their limited authority. When we delegate authority to private associations, we specifically limit that grant (either in the terms of the act, or by more general legal principles). Thus, private remedies sometimes fail because the private association lacks the authority to obtain a sufficient degree of compliance with its policies. This is especially true when there are public goods at issue, as when the benefits (or costs) of labor organizing and collective bargaining accrue to all employees, whether or not they participated in the organizing or bargaining processes.

Finally, policy implementation by private association often fails due to agent-principal problems. Authority is seldom exercised directly by the members of an association; having received a grant of authority from the state, they in turn delegate the responsibility for implementation to administrators or representatives, who may or may not be members of the class of recipients of authority (staff members of professional licensing boards or trade associations). As self-interested individuals, these agents may behave opportunistically to advance their own interests at the expense of the association members.

c. **Bureaucratic failures:** Responsibility for interpretation and implementation of public policies are commonly assigned to agencies of government.¹⁴ The standard organizational form of these agencies is bureaucratic, hence the classification of the failures associated with implementation by public agencies. Because individuals in bureaucracies are self-interested, a most significant class of bureaucratic failure is the pursuit of organizational objectives contrary to the objectives of the public policies. One prominent instance of of such behavior is "budget-maximization," but there are many others as well: promoting policies which will further the career objectives of agency employees; acting favorably toward parties for financial gain or future employment prospects; or interpreting policies in a manner consistent with personal values, but inconsistent with the social values on which the policies are premised.

Bureaucracies also fail due to information failures. As they often dependent on regulated industries for data and analysis, they are subject to opportunistic behavior by those parties. In any case, the issues they must decide, the actions they must take to successfully implement policies are complex, sometimes beyond the limits of bounded rationality.

The most widely noted failure of bureaucracies is their cost, which is indeed staggering (add up the combined expenditures of all levels of government spent on the agencies of government). But as recent studies have shown, the costs of bureaucracy are quite small compared to the costs of compliance with the regulations they impose. Even so, these costs must be measured in relative terms, since alternative institutional forms are not costless.

Finally, there are bureaucratic failures of a jurisdictional kind, due to overlapping jurisdictions across agencies or levels of government (attempts by the CAB, FAA and OSHA to regulate airliner working conditions;

or the myriad of environmental reports and approvals required for new factory construction). Though many of these are instances of "turf-protection" by agencies, they also result from the inherent structure of governmental authority in a society that values separation of powers and checks and balances.

4. Regulation and its Reform

FOOTNOTES

- 1 Editor's Note, Journal of Macromarketing, Spring 1982, page 3.
- 2 Lindblom [1977].
- 3 Arndt [1981].
- 4 For a more thorough discussion of the relationship between property rights and marketing systems, see Carman [1982].
- 5 This system of classification is consistent with the types of marketing channels identified in Carman [1982], page 206.
- 6 According to Williamson's view [1975], this amounts to a substitution of "hierarchy" for "market" as the means of control (as in the distinction between MacDonald's franchised outlets and their company-owned outlets). Because there is a market for employees to manage and staff company-owned, we view hierarchy and market as complementary means of control.
- 7 For the classic typology of market failures, see Bator [1958].
- 8 For this view of the legal framework of markets, we owe intellectual debts to Commons [1959] and Samuels [1966].
- 9 Schelling [1971] presents an insightful analysis of the use of laws or other instruments of authority in cases involving congestion or free riders.
- 10 For an excellent set of essays on product quality regulation, see Caves and Roberts [1975].
- 11 Hemenway [1975] is a thorough analysis of voluntary product standards, with several case studies.
- 12 Hawley [1981] presents a very interesting discussion of "associationism": (the use of public authority to promote social control by private associations).
- 13 Schmalansee [1979] offers a comprehensive review of the rationale for, and implementation of "natural monopoly" regulation, and an excellent bibliography of recent theoretical and empirical research in that field.
- 14 For further discussion of these failures, see Wilson [1980], Wolf [1978].

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DEREGULATING ADVERTISING:
DO THE SOCIAL BENEFITS OUTWEIGH THE COSTS?

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DEREGULATING ADVERTISING:

DO THE SOCIAL BENEFITS OUTWEIGH THE COSTS?

This paper provides a critical review of recent proposals by the Chairman of the Federal Trade Commission and others to reduce substantially the scope of regulatory power of the FTC over advertising. This position paper argues against these particular deregulation proposals on the grounds that they would lead to less useful information for consumers and a reduction in the efficiency of markets.

DEREGULATING ADVERTISING:

DO THE SOCIAL BENEFITS OUTWEIGH THE COSTS?

In March 1982, James C. Miller III, Chairman of the Federal Trade Commission, presented a plan to the Senate Commerce Committee for deregulating advertising. Miller's proposal dramatically revived the public debate over the effectiveness of advertising regulation, a debate that began almost 70 years ago with the enactment of the FTC Act of 1914. Since that time, the FTC's power over advertising has been called into question from time to time by economists, advertisers and other critics. However, the current challenge far surpasses any recent proposals for reforming advertising regulation.

The Congressional hearings and professional papers that are being stimulated by the deregulation proposal raise one of the fundamental issues in macromarketing: What are the social benefits and costs of advertising regulation? Macromarketing researchers occupy a unique position among colleagues in other fields of marketing, as well as the related disciplines of economics and law, in their ability to provide analytic insights into its answer. Two articles in the Journal of Macromarketing underscore this unique position. One is David Hughes' survey of marketers' contributions to regulatory reforms (1981) and the second is Alan Andreasen's agenda of macromarketing research in the 1980s (1982). Both authors emphasize the importance of developing criteria for the evaluation of regulatory programs in marketing.

The objective of this paper is to provide such criteria and to apply them specifically to an analysis of the benefits and costs of advertising regulation. Despite the recent growth of a sizable literature on deregulation (much of which is reviewed by Hughes 1981), there is surprisingly little research evaluating the social effects of advertising regulation. This research

and the deregulation proposal of Chairman Miller are discussed in the first section below. In the second section, we present our benefit-cost analysis of the four types of effects of advertising regulation: (1) direct social and private effects, (2) third-party or unintended effects, (3) market efficiency, and (4) political/social effects. The final section summarizes the analysis and presents our position opposing Chairman Miller's proposal and favoring the continuation of advertising regulation.

The Case for Deregulating Advertising

The deregulation proposal distinguishes deception and unfairness as the two grounds on which the FTC has traditionally taken action against advertisers. In the case of deception, Chairman Miller would limit the power of the FTC to act only when the following can be shown (Advertising Age 1982):

- (1) the advertisement causes "substantial" consumer injury;
- (2) it is likely (or has the capacity) to deceive "reasonable" consumers and not just the gullible; and
- (3) the deception involves factual claims rather than "opinion."

An ad that does not have the capacity to deceive the "reasonable" consumer could still be attacked as deceptive, but only if the advertiser "knew or should have known" that it would deceive "vulnerable" consumers. Also, the injury to consumers must not be outweighed with "countervailing benefits to society" and must be such that it could not be reasonably avoided.

The unfairness standard would be eliminated under Chairman Miller's proposal. The FTC Improvements Act of 1980 had suspended application of it as a criterion in the FTC's trade regulation rules through fiscal year 1982, and Congress will hold hearings in 1982 to help determine whether the unfairness standard should be reinstated.

Both the deception and unfairness standards are, in Chairman Miller's view, too vague and broad. They provide virtually unlimited power which Miller argues has allowed the FTC to challenge almost any ad it chooses. Some of Miller's examples of ads successfully challenged by the FTC are as follows:

- * The "Everybody Needs Milk" campaign, because the milk producers could not show that all people in fact need their product;
- * A "permanent" hair color, because it implied that new hair growth would have the same color as the dyed hair;
- * A "Safety" Champion tire, on the grounds that the tire was safer than other comparable tires;
- * The promotion of yogurt as "nature's perfect food" when the claim could not be substantiated.

A second objection that Miller raises is that the FTC has used the deception standard to exclude information that would be valuable to consumers. His example here is a Ford Motor Company ad that described a mileage test and made a claim of so many miles per gallon. Even though the ad explained how the cars were broken in, how fast they were driven, and used cautionary language ("You yourself might actually average less, or for that matter more; because mileage varies according to maintenance, equipment, total weight, driving habits and road conditions; and no two drivers, or even cars, are exactly the same."), the FTC found the ad deceptive as it implied that the average driver would get the advertised mileage.

Miller also objects to the current regulatory standards because they do not require proof that consumers have actually been harmed. In the case of Poli-Grip denture cream, the FTC condemned the claim that users of the product could eat "problem foods" on the grounds that consumers were deceived

by an ad that could not be substantiated. Miller agrees that the ad could not be substantiated, but he considers the FTC ruling an abuse of power because few, if any, consumers would be harmed since their frequent purchases of this inexpensive product would allow them easily to make their own evaluations of its effectiveness.

Finally, Miller would eliminate the current vagueness of the law that permits the Commission to find an ad deceptive not only for what it says but what it does not say. The example given is an FTC requirement imposed on sellers of salt (sodium chloride) substitutes that they must say that the products are not appropriate for consumers whose diets exclude potassium, even though the ads made no claims about potassium.

Under the Miller proposal, deception would be strictly defined, including the meaning of "substantial" consumer injury, "reasonable" consumers likely to be deceived, and the distinction between "factual claims" and "opinion." Chairman Miller would also have the law specify the type of case in which research evidence, such as sample surveys, would have to be consulted. In summary, the proposal of the Chairman of the FTC would eliminate the unfairness standard and would substantially limit the Commission's power to regulate advertising under the deception standard by specifically defining the conditions which would have to be satisfied.

Benefits and Costs of Advertising Regulation

Will the limitations on advertising regulation as proposed by Chairman Miller lead to greater benefits and reduced costs of FTC advertising regulation, as the chairman argues, or will they yield lower net benefits than present regulations? There is no simple answer to this question, but we suggest that its analysis should begin by distinguishing four types of benefit/

cost effects (Hutt & Miller 1981), as explained below, and identifying (and measuring) the major effects within each category.

1. Direct Societal Effects are the immediate and intended effects of advertising regulation. On the benefits side, the first and most apparent effects include the provision of improved or more accurate information and, conversely, a reduction in deceptive or misleading information to potential buyers. The intended ultimate effect is that buyers will make purchase decisions that conform more closely to their preferences and they will therefore derive more satisfaction from their purchases than they would if misled by false advertising claims. Controversy, however, surrounds the contention that more information always leads to improved consumer decision-making (Jacoby, Speller and Kohn 1974; Bettman 1975). Thus, information disclosure statements need to be thoroughly assessed and evaluated to insure that the intended direct social benefits are attained (Jacoby, Nelson and Hoyer 1982).

The direct costs of advertising regulation include the FTC administrative staff and operational expenses plus the additional costs of lost sales and compliance borne by advertisers. The latter may entail costs of documentation, substantiation, and, in a few cases, corrective advertising or labeling. However, compliance with an FTC order sometimes costs the advertiser less than continuing the objectionable campaign; the cease and desist order typically occurs well after the time during which the ad ran. Also, some advertisers are able to pass the additional cost of a fine on to their buyers in large part and without loss of market share.

One of the very few economic studies of FTC advertising regulation (Peltzman 1981) provides some evidence on the effects of cease and desist orders on buyer behavior and advertisers' market shares. The first hypothesis

tested was that false or misleading ads would be likely to induce purchases from consumers who had not previously tried the advertised brand, but the false ads would also have significantly lower probabilities of getting repeat purchases. False advertising lures new customers to try the brand, but once they try it they learn it is not as good as it is claimed to be, and on their next purchase they buy another brand. After the FTC steps in and halts the misleading advertising, the frequency of first-time purchases is reduced as a result of more truthful information (or less misleading lures) and a larger proportion of current sales of the formerly falsely-advertised brand will be repeat purchases. Space limitations prevent us from examining the empirical results in detail here, but in general the data (on toothpaste, juice, margarine, aluminum wrap, gasoline and anonymous food brands) support the hypothesis, at least for a temporary period after the FTC order.

The second hypothesis tested by Peltzman was that the market shares of companies using false advertising would be increasing in the time period prior to the announcement of an FTC challenge and the shares would fall after the FTC action. The factual record provided is less clear in support of this hypothesis, probably because the analysis did not account for the introduction of new brands, changes in competing prices, and other changes in marketing behavior. However, one interesting finding is that the FTC may actually be doing a company a favor by challenging its advertising: in some cases, firms get the same sales in the long run with lower advertising expenses!

2. Spillover or Third-Party Effects are the indirect and usually unintended effects of advertising regulation. For example, the issuance of a cease and desist order against a specific company will often influence the advertising decisions of other companies using similar appeals, even though the latter are

marketing a different product and are not challenged by the FTC. Since 1975, the FTC has broadened the scope of its advertising jurisdiction through the use of trade regulation rules which have a legislative effect on the advertising and other marketing practices of all firms in the designated industry. The spillover effects of trade regulation rules may thus extend beyond the target industry to other industries,

By implication, the existence of third-party benefits means that buyers of brands or products, the advertising of which is not being regulated by the FTC, enjoy better quality or less misleading information as a result of the regulation. These benefits may stem from an FTC ruling against, for example, deceptive methods of price advertising or television demonstrations of alleged product qualities. The FTC decision in the Rapid Shave case, holding that the pictorial representation of brand performance (ability to soften "sandpaper" to the point that the sand could be shaved off) which did not in fact exist, had wide spillover effects on other television demonstrations of similarly false product quality.

Third-party costs of advertising regulation do not include the FTC administrative and enforcement expenses, which are included in the first category of direct costs, but they do include adjustment or "voluntary compliance" costs of advertisers in the industries not being directly regulated. It seems likely that these costs are not very high, since unchallenged ads are usually allowed to run the course of their planned campaigns without change, and the correction or more truthful change in the next campaign does not entail any additional cost. Occasionally, however, an advertiser will make an extraordinary change in an ad campaign, package or label information or other type of advertisement.

3. Market Efficiency Effects are the societal and long-term effects on the efficiency of the exchange processes in the markets both of advertising and of the advertised product. Marketers have traditionally assumed that improvements in the quality of information, in the absence of strong countervailing forces, lead to more effective market exchange processes in the sense that sellers will respond more quickly and adequately to the preferences and revealed needs of better-informed buyers. New information may lead some consumers to alter their choices thus providing a stimulus to sellers to modify their products. To illustrate, a wide assortment of low tar and nicotine cigarette brands emerged after the FTC requirement that manufacturers provide information on these product attributes (Mazis et al.1981, p. 12). In this respect, FTC checks on false or misleading advertising can contribute to greater realization of the marketing concept. Stated negatively, false advertising by one firm if not stopped might induce false advertising by other competitors in the market. In turn, buyers will either make poorer purchase decisions or soon learn that the information contained in ads should be disregarded.

Market efficiency or inefficiency effects of advertising regulation are not easily tested, owing to their comprehensive and long-term nature, but Peltzman (1981) attempted a partial test that may be mentioned here. His hypothesis was that the announcement of an FTC action against an advertiser would lead to a reduction in the value of the latter's stock equal to the expected reduction in the present discounted value of future profits. The underlying rationale is that investors in the capital market interpret the FTC action as a signal that buyers in the product market will discount the false advertiser's brand and switch to competitors' brands, thereby lowering its long-term profitability.

Based on a sample of 23 major FTC cases from 1960 to 1975, a test of the long-term efficiency hypothesis showed surprisingly strong results that support the benefits of FTC regulation. To evaluate the impact of an FTC intervention on the value of a company's stock, Peltzman examined cumulative excess returns (CER) for several time-periods before and after the FTC action against the firm. The CER is measured as the difference between the return on the stock of the company whose advertising is challenged and the return on a portfolio of stocks with similar systematic risk, and it is a measure that has been used to evaluate other types of regulatory interventions. The statistical results show that there are consistently large significant negative returns to the stocks of the companies targeted by the FTC, and the capital losses appear to be concentrated around the time of the FTC complaint rather than at later stages.

While a lengthy historical debate has been evoked by the methodologies and assumptions used in such studies, the results raise interesting questions relevant to the present deregulation proposals (Ferguson 1974). Have past FTC rulings been effective in achieving intended market efficiency effects? Under what conditions have past rulings that exceed the regulatory authority of the FTC led to damage to individual firms? Further empirical research is needed to clarify these issues.

4. Socio-Political Effects are shifts in income distribution and other impacts on the larger socio-political structure. Here, as under market efficiency effects, the evidence suggests that the benefits of FTC advertising regulation are greater than the costs. Any action, governmental or private, that contributes to better information for buyers in the marketplace provides greater equality of economic opportunity and thereby removes some of the

obstacles of false or misleading information. Similarly, if the advantages of false advertising are greater for the company that advertises more, FTC regulation against false advertising may help to place the smaller advertiser on a fairer competitive basis.

Summary and Conclusions

Our analysis of the social costs and benefits of advertising regulation suggests that the benefits of the FTC program exceed its costs. The clearest positive net benefits are market efficiency and socio-political effects, but the same results appear to hold for direct and spillover effects. Peltzman, who began his empirical investigation with "the prior belief that the regulation is ineffective" (p. 404), reaches the same conclusion: ". . .the 'toothless tiger' image of FTC advertising regulation is wrong," he writes (p. 447). The large losses in the capital value of firms challenged by the FTC point to very substantial and long-lasting effects; and once the FTC decision on a firm's false advertising is final, the firm's ability to attract first-time buyers is greatly diminished.

To what extent would Chairman Miller's deregulation proposal weaken the FTC's ability to achieve the positive net social benefits? The largest single deregulatory move in the proposal is to eliminate the unfairness standard. Dorothy Cohen (1982) has defended the unfairness standard on the following grounds (p. 79):

- * The unfairness doctrine provides a mechanism for dealing with an issue that is likely to be increasingly significant in the future-- the need for consumer information disclosures.
- * A ban on unfairness may leave the FTC unable to deal with some unacceptable acts or practices that they have prohibited, such as ads

that encourage children to engage in unsafe behavior.

- * Unfairness may be present when an imbalance in bargaining power exists between merchant and consumer, and the merchant has abused his/her superior position to the detriment of consumers.
- * Unfairness may be needed to indicate the circumstances in which affirmative disclosure of information by a seller may be required.
- * In an era of technological innovations in communications, the FTC's ability should be maintained to ensure that such innovations in information presentation operate in the consumer's interest.

On the proposal to limit the FTC's power under the deception standard, the main objection has been that it is impossible to define the key terms as proposed. Chairman Miller's stated intention is to remove ambiguity from the law and to limit the scope of the Commission's discretion in finding ads deceptive, but the new, tighter standards he proposes have considerable ambiguity in their terms. For example, what are "reasonable" consumers; what is the distinction between "factual claims" and "opinion"; and how can the FTC tell if the injury of an ad is "outweighed by the ad's benefits"?

In recent years, a number of attempts have been made to define deception in advertising. Most of the conceptualizations define deception in terms of consumer information processing. For example, Olson and Dover (1978) contend that demonstrably false beliefs must be acquired for deception to occur, while Gardner (1975) charges that deception cannot be fully understood without assessing the interaction of the advertisement and the consumer. While a standard measurement procedure has not been developed for detecting deception in advertising, some useful empirical groundwork has been established (Barbour & Gardner 1982). Miller's proposal, to an important degree, appears to rely

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on the premise that deception can be identified by experts. Past research efforts in the deceptive advertising area suggest that the proposal would be difficult to operationalize without more sharply defined guidelines and procedures.

The real danger in the Miller proposal, we submit, is that it will seriously reduce the beneficial work of the FTC in policing deceptive or unfair advertising, without achieving its stated objective of clarification. Enactment of this specific deregulation proposal will be a go-ahead signal to false advertisers, most of whom cannot be controlled by the FTC. Once the reputation of the FTC was significantly altered, it would take years to restore the spillover and market efficiency benefits that it has taken the FTC 70 years to accumulate. Miller does not appear to have analyzed these longer-term or intangible effects, but they are probably more important than the direct short-term benefits of advertising regulation.

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THE VIABILITY OF FRANCHISING: A REVISED PERSPECTIVE

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The Viability of Franchising: A Revised Perspective

Franchising continues to grow in the U.S. Predictions of the conversion of franchising systems into corporate chains are not supported by available data. The model predicting this conversion, assuming decreasing costs of capital to franchisors and an ability to capture economic rents through integration, appears flawed. An alternative, based on an agency-cost model, is presented.

The Problem

Everyone is aware of the rapid growth of franchising in the United States during the past two decades. Yet, the history of retail institutions suggests that there are limits to the expansion of any marketing institution and, eventually, a decline.

The viability of franchising has struck many observers as especially precarious. If, indeed, franchising is an institution (a point to be discussed later), it seems to exist at the pleasure of those who are the franchisors. Several writers (Caves and Murphy, 1976; Hunt, 1973; Lillis and Narayana, 1976; Oxenfeldt and Kelly, 1968-69) have contended and/or found evidence to support the proposition that franchisors would, as their systems matured, gradually phase out franchisees altogether by repurchasing profitable franchisee-owned units and starting all new units as franchisor-owned. Such actions would convert franchise systems to corporate chains and, while some "franchisors" might continue to allow marginal units to be operated by franchisees, franchising would be dead in everything but name. Such a development is of concern on at least two grounds.

First, to the extent that there are social benefits to franchising, as described by Hunt (1972), they would be lost through a conversion of franchising systems to corporate chains. If nothing else, conversion would probably revive the old acrimonious debates about corporate chains and lead to new calls for anti-chain legislation. The widespread perception that major oil companies are replacing independent dealers with company-owned stations led to the passage of the Maryland law which forces oil companies to divest themselves of their owned stations; the Supreme Court's upholding of that statute (*Exxon Corp. vs. Governor of Maryland*, 98 U.S. 2207, 1978) has stimulated other states and the U.S. Congress to consider similar measures.

Second, in the name of encouraging the formation of small businesses, considerable Federal aid has been given to franchisees. While the Small Business Administration's policy of loans and loan guarantees to franchisees has changed several times over the past 20 years, the General Accounting Office found that over 16,000 loans totalling roughly \$1 billion were made to franchisees between 1959 and 1979, with about half going to those affiliated with 25 large franchisors (Eschwege, 1981). If franchising is merely a temporary arrangement in the development of new corporate chains, this form of aid to "small business" is only a disguised subsidy to those eventual corporate chains.

This paper will review the arguments supporting the prediction of eventual chain ownership, present a summary of some data which suggest that this prediction is not yet being fulfilled and, mostly, present an alternative conceptualization of franchising as an institution which, in some sectors of our economy, will continue to be viable.

The Development of Franchising

There are several accounts of the history of franchising (e.g. Haskett, 1977). Most begin with the development of the automobile distribution system in the early part of this century and go on to describe the petroleum industry's acceptance of the so-called Iowa Plan in the 1930's under which formerly company-owned stations were leased to those who operated them. Automobile dealerships and gasoline service stations dominate the franchising data reported each year by the Federal Government (U.S. Department of Commerce, 1972-1981); however, it is our intention to focus on that new wave of franchising during the 1960's and 1970's which took it into new areas. It seems pertinent to make at least three points of comparison between the "new wave" (e.g. fast foods, copying and printing services) and the automobile-

gasoline dealership forms of franchising.

First, most of this new wave of franchising does not represent a channel of distribution for goods produced by (or even sold by) the franchisor. Table 1 shows, for 1979, the sales of products and services (i.e., the total of merchandise for resale, supplies, food ingredients and other) by franchisors to franchisees as a percentage of sales by franchisee-owned establishments, by sector. Of course, the sales of products by franchisors to franchisees are at wholesale while the sales of franchisees are at retail. Further, comparable data for automobile and truck dealers and for gasoline service stations are not reported.¹ However, allowing for the customary retail margin and the amount of service work performed by auto dealers and service stations, the comparable percentages for those two sectors, if available, would differ markedly from most of those shown in Table 1. Franchisors in auto products (tires, mufflers, parts, etc.) and non-food retailing (wearing apparel, cosmetics, electronics, etc.) appear to use franchising as a channel of distribution for their goods, but most of the newer types of franchise systems are not channels of distribution in this traditional sense. Caves and Murphy's (1976) definition of franchising comes closer to describing its nature:

We define a franchise agreement as one lasting for a definite or indefinite period of time in which the owner of a protected trademark grants to another person or firm, for some consideration, the right to operate under this trademark for the purpose of producing or distributing a product or service. Its central features are the rental of an intangible proprietary asset and the operation of a decentralized production or distribution

process. (emphasis added) Although information on production processes may accompany the franchise, it differs from a technology licensing agreement in the central role of the trademark. It differs from an agency relation in that the franchisee cloaks himself in the identity of the franchisable trademark. And it differs from the multi-unit enterprise in that the franchisees operate as independently liable firms (p. 572).

Second, while the historical concept of franchising implies that franchisees have always existed at the sufferance of their franchisors, the new wave of franchising seems to evidence this to an even greater degree. Many, probably most, of the new franchisees established themselves in business when they were "sold" a franchise. Presumably, each of these people had the desire to be in business for themselves but, lacking experience in entrepreneurship and a large capital accumulation, would never have established themselves in business, any business, without the availability of a franchise. By contrast, the capital requirement of an automobile dealership, or of a service station which is not company-owned and leased to its operator,² suggests that many franchisees in those sectors would likely be in some sort of business for themselves in the absence of franchising.

Further, since these newer sectors of franchising involve the production of a good or service in the franchisee's establishment, the franchisee is more dependent on the continuance of the franchise relationship than the franchised seller of goods at the end of a channel of distribution. Granted that all franchisees would have a very difficult time surviving the failure of their franchisors, the question here concerns the disenfranchisement of the individual franchisee. The terminated auto dealer has an inventory which can

be sold (or, in many states, must be repurchased by the manufacturer) and real estate which has value for other purposes. The typical newer type of franchisee has little or no inventory and, denied use of the franchisor's trademark, little potential for producing a saleable product or service. Often the equipment and/or real estate is so specialized in function or appearance that few, if any, alternative uses can be made of these capital investments. All this suggests that the franchisees of the more recently developed sectors of franchising are more dependent on the continuance of their franchised relationship.

Third, for most of the franchisors involved in this new wave of franchising, the only alternative to the establishment of a franchise system is complete vertical integration through ownership of the outlets. A conventional channel of distribution, with separately owned members who deal with each other at arm's length, is not a realistic option for the seller of a service or a good produced on-premises (e.g., a restaurant meal.) The question of why franchisors chose to create franchisees rather than wholly-owned outlets becomes the central issue in explaining the development of franchising. As Rubin (1978) has pointed out, almost all writers who have addressed this issue have focused on the franchisees as a source of capital for the expansion of the franchisor's system as the explanation.

An Institutional Perspective

The above review of franchising's development suggests that these most recently created systems are not true retail institutions. If franchisees were "recruited" primarily for the purpose of furnishing expansion capital and will be permitted to exist in their cloned operations only as long as the franchisor chooses to let them, one might reasonably ask whether franchising is an institution and, by indirection, whether any of the various theories of

institutional change are relevant to explaining its rise or future course of development.

Thus, before turning to the model which purports to both explain the emergence of and to predict the demise of franchising, it is useful to examine the nature of franchising from an institutionalist perspective. In the most general sense, Berelson and Steiner (1964) discuss the definition of an institution:

This term, like several others in the behavioral sciences, is given different definitions by scholars of different proclivities. Essentially, the differences come down to this: an institution as a "complex normative pattern" governing behavior in certain fundamental and recurring situations, as against an institution as the organized aggregate to which the norms are applied. Roughly speaking, the distinction is between the procedures and the system. The former is the more technical definition; the latter the more popular. According to the former, marriage and communion are examples of institutions; according to the latter, the family and the church are (p. 384).

While most of the discussions in the marketing and finance literature concern "institutions" in the second sense of the term (e.g., supermarkets, department stores, commercial banks, credit unions), Duddy and Revzan's "Elements of Institutional Theory" (1953) is clearly based on the first definition. They accept John R. Commons' definition of an institution ("collective action in control, liberation and expansion of individual action") and go on to say:

When we speak of the economic order as "functioning through a variety of structures in a process of distribution," there is implied in the term "process" a function of coordination and control. It is this function which relates the various activities in a kind of order and thus gives organization to the market. When the economist thinks of this function he thinks mainly in terms of prices and profit margins. For the institutionalist the instrumentalities of coordination and control include not only prices and profit margins, but management, using authoritarian and persuasive techniques, government regulation, and social convention and custom (p. 621).

From this perspective, franchising is an institution. It may be manifest in fast food systems or in motel systems, but these systems are not themselves institutions. This is not to say that franchising is an "industry," as some are wont to call it, but only to say that it is an institution which has become established within several industries. The implications of saying this are two-fold:

First, the environmental and market forces which have been conducive to the growth of the various industries in which franchising exists do not explain the rise of franchising itself, nor will the forces which reduce demand for the industry's product explain franchising's decline. The pertinent environmental and market forces are those which affect the nature of the relationship between franchisees and franchisors.

Second, the institution of franchising is a technology implemented by human decision-makers to provide a coordination and control function within

the economic order. Presumably, it came into being because it performed these functions better than existing alternative mechanisms and will continue to do so as long as it performs those functions efficiently, relative to alternative coordination and control mechanisms.

Franchising is often depicted as quasi-integration, implying that both ownership (complete integration) and traditionally organized channels are relevant alternatives. However, for the franchise system which produces a good or service on site, the corporate chain is the only alternative open to the would-be franchisor. While a manufacturer of auto mufflers or sport shoes could evaluate franchising against a channel composed of independent wholesales and retailers, firms such as MacDonald's or Holiday Inns or Century 21 or Hertz or Cut and Curl are either franchised or integrated. Thus, from an institutionalist perspective, any model which would attempt to explain the growth and future course of franchising must address the relative advantages and disadvantages, to the franchisor, of franchising and integration.

The Economic-Rent Model of Franchising

Explicitly or implicitly, most who have predicted that franchising systems will evolve into corporate chains base their predictions on two premises. First, the motivation for the franchisor to own the system's outlets is always present and strong because it is based on the desire to capture the profits generated at the outlet level. Second, the wherewithall for the franchisor to own the system's outlets will increase as the system matures, presumably as the result of its market success.

Although micro-economic in origin, the "economic-rent" model is not a static market model because it is based on a changing set of relationships between the franchisee and the franchisor as the system matures. It views a franchisor as an entrepreneur who has found a successful method of operation

and seeks to expand. Lacking additional personal funds and unwilling or unable to take in partners, this innovator finds all forms of financing expensive or unavailable.

The prospective franchisee has an accumulation of personal savings sufficient for the equity portion of a small business' capital requirements but lacks experience as an owner-proprietor. Believing that his/her capital can be best utilized when it benefits from the interaction with his/her own efforts, the prospective franchisee is attracted to the franchisor by the latter's explicit or implicit promise of a "proven formula for success." The franchise agreement embodies this "formula" into a series of clauses through which the franchisor effectively controls the nature of the franchisee's operation. The contract is written to expire in a stated number of years and at its expiration, or at such time as the franchisee wishes to leave the business, the franchisor has the right of first refusal to purchase the franchisee's establishment at a stated price. However, since the "formula" is not yet fully proven, franchisees are not inclined to pay a large up-front franchise fee and the contract will call for a royalty based on the outlet's sales.

As the franchise system becomes successful through the addition of more franchisees and increasing sales at each location, at least three important things happen.

First, the franchisor is in a more advantageous position to attract further expansion funds through retained earnings, equity or debt financing. As an established business, the rate which it must pay for borrowed funds declines.

Second, the market acceptance of the "formula" creates a divergence of economies of scale between the franchisee and the franchisor. The franchisor

enhances the value of the trademark by policing the franchisees' operations to ensure their adherence to the formula, engaging in promotional efforts and revising the formula in response to changing market and environmental conditions. As they are successful, these efforts produce profits at the operating level which, to the extent they exceed the franchisees' implicit wages and return on capital, represent economic rents. It is important to note that, unless the amount of the economic rent is perfectly correlated with the outlet's sales (i.e., there are not outlet-specific fixed costs), the franchisor is incapable of extracting it fully with a royalty from the franchisee.

Third, as maturity is reached, the franchisor is faced with diminished possibilities for continued expansion of the number of outlets. With better access to capital and a desire to capture the economic rents generated at the outlet level, the franchisor is no longer willing to open new outlets as franchisee-owned and, as opportunity arises, will buy back (at least) the successful franchisee-owned establishments. In other words, the franchisor will gradually shift attention from growth to solidification of position.

Papers by Oxenfeldt and Kelly (1968-69), Hunt (1973) and Caves and Murphy (1976) all forecast gradual conversion of franchise systems to fully integrated chains and Hunt (1973) and Lillis and Narayana (1976) presented some evidence that such a trend was underway, at least in the fast food sector. Compelling as all this may be, the most currently available evidence suggests that the expected conversion process is not yet underway in many lines of trade. In fact, in some lines a contrary phenomenon is occurring. These data, which are shown in Table 2, are being reported elsewhere in considerably greater detail. They are shown here only to support our contention that the previously described model is in need of revision.

A movement toward fully integrated chains should be evidenced in one or more of the following ways. In mature systems, increases should be observed in:

- (A) the proportion of total establishments which are franchisor-owned.
- (B) the proportion of total sales which are attributable to franchisor-owned establishments.
- (C) the sales volume of the average franchisor-owned establishment compared to the average franchisee-owned establishment.

Ideally, these propositions would be tested with data for individual franchise systems. However, data are readily available by lines of trade (Department of Commerce, 1972-1980). While not ideal, it is difficult to imagine a sector which exhibits maturity (i.e., the total number of establishments is increasing but a steadily diminishing rate) in which a significant number of franchise systems are still expanding rapidly. On that basis, the above propositions should be testable with the lines of trade data.

In Table 2, the sectors are divided into two categories, mature and declining. Mature sectors are those in which the total number of establishments is increasing at a decreasing rate; declining sectors are those in which the number of establishments is declining. Five sectors (Education Products and Services, Employment Services, Auto-Truck Rental Services, Campgrounds and the Miscellaneous category) exhibited no clear pattern of growth or decline and were excluded. Data for 1971-1979 for the proportion of establishments in the sector which are franchisor-owned were examined for evidence of a linear trend whose value of "b" was significantly different from zero.³ A "plus" (+) in Column 1 indicates that a trend supporting Hypothesis (A) above was found; a "0" indicates that the value of "b" was not significantly different from zero and failed to support the hypothesis; a

"minus sign" (-) means that there was a significant trend in the direction contrary to the hypothesis. Likewise, Columns 2 and 3 present the results of data relevant to Hypotheses (B) and (C), respectively. Column 4 shows the proportion of total establishments which were franchisor-owned in 1979.

There appears to be scant support for a general trend toward conversion to corporate chains. The need for some re-examination of the model seems apparent. In the following two sections, the capital market explanation of franchising and the motivation of franchisors to capture economic rents will be re-examined separately.

The Capital Market Explanation of Franchising

Re-examining the argument that a franchisor, by relying on franchisee-supplied capital, is able to expand more quickly than through reliance on building wholly owned subsidiaries, Rubin (1978) finds the argument "fallacious in the light of modern capital theory" (p. 225). As he points out, the risk in a franchise system is assymetrical. The franchisor's risk is diversified over many outlets in many areas while the franchisee's risk is specific to one or a very few outlets in the same area. Further, although Rubin does not consider the point, the franchisee bears the risk of the franchisor's failure, while the franchisor is probably immune to the failure of one or a relatively small number of franchisees. Elsewhere (Mittelstaedt and Peterson, 1982) we estimated that 9.2% - 14.9% of all franchisee failures in 1977 were due to franchisor failure. As Rubin (1978) describes the effects of this assymetry of risk:

This means essentially that the franchisee will require a higher rate of return on his capital if he is required to invest in one outlet rather than a portfolio.

Conversely, the franchisor, by forcing a relatively large

risk on the franchisee, will himself earn a lower rate of return. This argument (that franchisees are a good source of capital for expansion) thus appears to make sense only if we assume that franchisors are more risk averse than franchisees. But since franchisees commonly invest a large share of their assets in acquiring the franchise, it is unlikely that this will be the case (p. 225).

As a system grows to maturity, and finds market success, all potential capital suppliers - including franchisee's - will presumably be willing to accept a lower risk premium. While this reduces the cost of capital, it may not change the relative costs of franchisor and franchisee supplied capital. In summary, an analysis of the cost of capital shows that capital market arguments neither explain the growth of franchising nor support the prediction of conversion to corporate chains.

Franchisors' Motives Reconsidered

The economic-rent model predicts that franchisors will establish their own outlets and buy back successful franchisees to capture the economic rents generated at the operating level. There are really two presumptions involved: (1) that ownership is the only truly effective way to capture the economic rent; (2) that the franchisor, operating the outlets with paid managers, will be as successful as the franchisees in generating profits. In this section we will examine both points.

To take the issue of capturing rents first, it has been shown by Inaba (1980) that rents can be completely captured by a franchisor through full-line forcing. Unlike the royalty payment, which is set by the contract at the

start of the relationship, input prices can be adjusted to meet changing demand conditions. As the "formula" brings success to the outlets, the franchisee who is sole supplier of the bulk of the franchisee's inputs is in an advantageous position to extract any extra profit which may be earned at the outlet.

Hunt and Narver (1975) found that "franchisees (who were) required to purchase supplies from their franchisors had significantly lower incomes than franchisees not required to purchase supplies from their franchisors. As used in this study, franchisee income included profit plus owner's salary and any salary paid to spouse and unmarried children" (p. 25). Furthermore, "...the proportion of supplies which franchisees were required to buy from their franchisors was found to be negatively related to both measures of franchisee satisfaction" (p. 25). Both findings confirm the idea that franchisors can and do use full-line forcing to extract economic rents from franchisees.

However efficacious full-line forcing may be as a rent-extracting device, the data of Table 1 suggest that there are a number of sectors in which there is little potential for its use. When the franchisor's sales of all goods and services are less than 5% of the franchisee's total sales, it would probably take truly unconscionable prices for the franchisor to capture the outlet's profit and ownership might become the only attractive alternative. Put differently, many franchisees continued existence may be preserved by their vulnerability as captive customers of their franchisor.

In the end, the most important factor in the process is the answer to the question, "Can the franchisor's hired managers produce the same level of profit, outlet by outlet, as the franchisee's royalty payments produce?" The central problem is that the franchisor who integrates is immediately faced with the problem of controlling and motivating managers in a geographically

dispersed organization. This is a problem nearly as old as commerce itself and the solution of giving local managers a stake in the profitability of their own operations was far from novel when the Northwest Company instituted the concept in the fur trade in the mid-1700's (Innis, 1970, Ch. 8). In fact, franchising in one industry, petroleum retailing, was developed as an alternative to company ownership in a deliberate attempt to dis-integrate distribution systems and increase sales. While the immediate cause of the so-called Iowa Plan was Iowa's heavy chain store tax, McLean and Haigh (1954) claim that the Plan would have occurred even in the absence of the chain store taxes. The oil companies were pleased with the initial results of franchising, as evidenced by the Annual Report of the Standard Oil Company of Indiana for 1935:

The results have been rather surprising. While it has been impossible to maintain uniformity of free service, and there has probably been some decline in the employment provided in the stations, the company's sales have not suffered. On the contrary, the quantities of products distributed to the same stations have measurably increased. On the basis of this experience, it has been decided to place the operation of company-owned stations as largely as possible in the hands of independent dealers (quoted in McLean and Haigh, 1954, p. 294).

In a more recent study, Shelton (1976) reports that within a particular fast food franchise system, and "despite detailed supervision which would seem to minimize opportunities for managerial initiative, restaurants operated by independent franchisee-owners out performed those supervised by company managers, even though the company managers are paid in a basis that involves

some incentive compensation for achieving profits (p. 1258)."

The Agency Cost Model

The basis for expecting a higher profit from franchising than from vertical integration is found in the "agency cost model" as articulated by Jensen and Meckling (1976). The outline of this model is described by them follows:

We define an agency relationship as a contract under which one or more persons (the principal(s)) engage another person (the agent) to perform some service on their behalf which involves delegating some decision-making authority to the agent. If both parties to the relationship are utility maximizers there is good reason to believe that the agent will not always act in the best interests of his principals. The principal can limit divergences from his interest by establishing appropriate incentives for the agent and by incurring monitoring costs designed to limit the aberrant activities of the agent. In addition, in some situations it will pay the agent to expend resources (bonding costs) to guarantee that he will take certain actions which will not harm the principal or to ensure that the principal will be compensated if he does take such actions. However, it is generally impossible for the principal or agent at zero cost to ensure that the agent will make optimum decisions from the principal's viewpoint (p. 308).

In the instances at hand, the trademark owner is the principal and the outlet operator is the agent, whether an employee of the trademark owner or a franchisee. The model tells us that under either franchising or vertical

integration there will be agency costs, the major one arising from the necessity of the principal to monitor the agent's behavior.

Monitoring the behavior of the outlets involves watching over two related processes. First, the principal wants to ensure that the product or service is produced and presented to potential customers according to the prescribed formula. Second, the principal must guard against what Williamson (1980) calls opportunism, described as ". . . self interest with guile . . . making self-disbelieved threats or promises, cutting corners for undisclosed personal advantage, covering up tracks and the like." He goes on to relate this to agency costs by pointing out:

Although it is a central assumption, it is not essential that all economic agents behave this way. What is crucial, however, is that some agents behave in this fashion and that it is costly to sort out those who are opportunistic from those who are not (p. 49).

It might be presumed that the costs of monitoring behavior would always be less in the vertically integrated system which involves an employer-employee relationship between principal and agent. However, such is not the case. With respect to monitoring behavior to ensure adherence to the formula, the motivation of the franchisee probably acts to reduce monitoring costs. As Ridgeway (1957) observed, "...the initiative, ambition and hard work of the dealer who is in business for himself is perhaps the most valuable asset the manufacturer can obtain (p. 470)." This is particularly true in the tightly circumscribed operation of the franchisee because there is very little that he/she can do to markedly affect the outlet's revenues that is not subsumed by the notion of adherence to franchisor's formula; the more closely the

franchisee adheres, the greater the revenues.

With respect to monitoring behavior to control opportunism, the advantage would seem to clearly be in the franchised system over the vertically integrated one. Not only is the on-site owner likely to be more careful in controlling the opportunism of the outlet's employees, but any costs arising from the opportunism of the outlet's manager (franchisee) will be minimized in the franchised system where the franchisee, by engaging in such behavior, would only be taking advantage of him/herself.

Finally, the agency--cost model implies that differences in monitoring costs may explain the intersector differences in the degree of vertical integration. One would predict that, where monitoring costs are high, as with on-site production of a good or service, franchising would be more efficient than vertical integration.

Conclusion

While the growth of franchising systems may have slowed, predictions of their imminent conversion to corporate chains appear to be, like the reports Mark Twain received of his own death, "greatly exaggerated." The economic-rent model which underlies those predictions focuses on the right issues, the motivation of the franchisors to seek greater profits and the efficiency of franchising relative to vertical integration, but appears to involve flawed analysis.

As Kuhn (1975) has remarked, "...if any complex system continues to exist and function for very long, system analysis suggests that certain forces in the behavior of the system itself create conditions that favor its continuance (p. 331)." This paper has argued that those forces include the ability of the franchisors to extract economic rent by full-line forcing and the desire to avoid the costs of monitoring the behavior of the outlets. Operationalizing

these concepts may not be easy but the promise of their being both explanatory and predictive merits the effort.

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Footnotes

1. Data for automobile dealers and gasoline service stations, although reported with other franchising data (U.S. Department of Commerce, 1972-1981), are taken from trade association sources. All separations by franchisee- and franchisor-owned establishments in those two sectors are estimated by a method which does not change year-to-year and, therefore, the data are not comparable to the other sectors. Due to large discontinuities in the sector series between 1970 and 1971, only data 1971-1979 are included in those sectors which were tested.
2. Data on franchised service stations do not separate those stations which are owned by an oil company and leased to a dealer from those which are owned by the dealer (or the jobber). The latter involve a substantial capital investment on the part of the dealer; the investment requirement in the former type is minimal.
3. When no significant linear trend was found, tests were conducted for simple non-linear trends using logarithmic, exponential and power functions.

Table 1

Total Sales of Products and Services by Franchisors to Franchisees
Compared to Total Sales of All Franchisee-Owned Establishments-1979

(Thousands of Dollars)

Kind of Franchised Business	Column 1	Column 2	Column 3
	Total Sales of All Franchisee-Owned Establishments	Total Sales of Merchandise, Supplies, Ingredients and Services by Franchisors to Franchisees	Column 2 as a % of Column 1
Automotive Parts & Services	\$5,064,051	\$2,187,363	43.2%
Business Aids & Services	5,408,402	40,756	0.8
Construction, Home Improvement			
Maintenance and Cleaning	1,151,794	175,639	15.3
Convenience Stores	2,527,243	144,600	5.7
Educational Products & Services	203,864	5,860	2.9
Restaurants (all types)	16,689,515	708,319	4.2
Hotels and Motels	4,654,344	5,683	0.1
Campgrounds	91,723	606	0.7
Laundry and Dry Cleaning Services	246,426	340	0.1
Recreation, Entertainment and Travel	331,616	3,598	1.1
Rental Services (Auto-Truck)	1,127,119	12,015	1.1
Rental Services (Equipment)	119,056	20,766	17.4
Retailing (non-food)	5,607,789	1,858,333	33.1
Retailing (Food other than Convenience Stores)	4,640,241	589,117	12.7
Miscellaneous	327,114	20,918	6.4

(Source: U.S. Department of Commerce, 1981, Tables 1 and 12)

Table 2

Trends in Franchisor-Owned and Franchisee-Owned Establishments and Sales, 1971-1979

Kind of Franchised Business	Trend in Proportion of Franchisor-Owned Establishments	Trend in Proportion of Sales of Attributed Franchisor-Owned Establishments	Trend in Size of Average Franchisor-Owned Establishment Relative to Average Franchisee-Owned Establishments	Proportion of Total Establishments Which Were Franchisor-Owned in 1979
<u>MATURE SECTORS</u>				
Automotive Parts & Services	-	-	0	9.2
Business Aids & Services				
Accounting, Credit & Collection				
Agencies & General Business Systems	-	-	0	1.5
Printing & Copying Services	-	-	0	3.4
Tax Preparation Services	0	-	-	49.9
Real Estate & Miso. Business Services	0	0	0	1.4
Construction, Home Improvement, Maintenance & Cleaning	+	+	0	4.0
Convenience Stores	+	0	-	67.1
Restaurants (All Types)	+	+	-	28.6
Hotels & Motels	-	-	+	18.4
Recreation, Entertainment & Travel	0	0	0	2.0
Rental Services (Equipment)	-	0	0	10.9
Retailing (Food other than Convenience Stores)	-	+	+	7.1
<u>DECLINING SECTORS</u>				
Laundry & Dry Cleaning Services	-	0	-	2.1
Retailing (Non-Food)	+	+	0	31.1

(Source: U.S. Department of Commerce, 1973-1981)

A NOTE ON "COMMON BELIEFS"

IN MACRO MARKETING

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1. Introduction

The search for theoretical concepts to apply to macro-marketing could usefully pay more attention to classical sociological theory. In the past, marketing theory in the behavioural science area has tended to focus on psychology or perhaps social psychology, which are both largely concerned with the micro level, in particular with consumer behaviour. Sociological theory however should be able to offer an explanation of how and why the discipline of marketing functions within society - our own in particular, but also any society, including the developing nations.

Three papers presented at last year's conference raised issues which could be examined in the light of a central proposition from classical sociological theory which can be stated quite simply that

"Society can only retain coherence through common beliefs".¹

2. The Central Proposition

2.1 Briefly stated the argument underlying this central proposition could be summarised as follows :

As individuals and (or social actors) interact with one another in recurrent and fairly predictable social relationships to form patterns of social order, they generate ideas about collective behaviour which they share with other participants. As they communicate about common activities they exchange attitudes, values and beliefs, and adopt similar ways of doing things. This produces a shared body of beliefs which become associated with certain patterns of social order which in turn prescribe the process of social organisation.

1. The theory discussed in this paper is not one side of the consensus versus conflict debate about society. Although it explains the importance of beliefs held in common by individuals, as will become apparent, it can accommodate the role of conflict as agent of change.

These common beliefs may be cognitive, normative or both. They will have varying degrees of importance to the social organisation and will range from fairly loosely held ideas constituting customs or following through to moves and social norms. According to their importance the severity of negative social sanctions against non conformity may range from mild sarcasm, through ostracism or legal enactments. Furthermore, common beliefs do not remain static. They may change over time, new ones take hold and old ones may be discarded as no longer useful or relevant.

To participate in any social organisation the individual must to some degree adhere to the common beliefs associated with it, and while all individuals do not necessarily think alike, the differences must not be too great if the social organisation is to persist through time and function effectively in achieving goals.

Furthermore, although the individual actor may accept the common beliefs which unite the members in a social organisation, the motivation for acceptance will lie somewhere on a continuum which has self interest at one extreme and collective interest at the other. Self interest involves expediency with an assessment of the benefits and costs to the individual actor, while collective interest emphasises mutual rights and obligations (particularly in a moral sense).²

2.2 The theory regarding the importance of common beliefs as essential to the coherence of society was first put forward by Auguste Comte (1798-1857), who viewed the collective facts of history and society as being subject to laws, not just human volition. The concept (which he called "consensus") has continued to be influential down to the present, particularly as it transcends both behaviourism and a strictly economic interpretation of human motivations.

It was elaborated by Emile Durkheim (1858-1917) and became a basic principle in all his work, while more recently it has been taken up by Talcott Parsons, and primarily from this source has been used both explicitly in American sociology.

² In social theory emphasis on a self orientation towards the collect-
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What these classical sociological theorists are claiming is that society is a phenomena standing apart from the individual social actors who make it up. It has characteristics which are not inherent in other individual members and therefore has an existence of its own which can be critically examined. Durkheim³ has expressed the notion,

"A whole is not identical with the sum of its parts. It is something different, and its properties differ from those of its component parts ... By reason of this principle society is not a mere sum of individuals ... Rather the system formed by their association represents a specific reality which has its own characteristics ... We must see the explanation of social life in the nature of society itself."⁴

As evidence of this claim Durkheim mentions two principles, "exteriority" and "constraint" which affect individual numbers. "Exteriority" refers to the fact that social organisation persists even though its membership may change, while "constraint" refers to the effects of social organisation in influencing the individual's choice of behaviour.

³ The Rules of Sociological Method. pp.102-3.

⁴ The issue of ~~re~~ification will be raised by some, but as long as social organisation is viewed as a process and social structure as a description of the process at a particular point in time, the objection is overcome.

3. "Common Beliefs" in macro marketing

3.1 The three papers under consideration are:

- (1) "The Micro-Macro Dilemma" by Donald F. Dixon.
- (2) "The 'One-Price' Policy: Its Moral Basis and Implications" by Robert A. Loewer.
- (3) "The Incidence of Quantity Surcharge and the Possibility of a Unit Price Defense" by Robert W. Mason and Albert J. della Bitta.

The first paper raises some fundamental questions about how the marketing system functions, questions which can be illustrated by the other two papers.

3.2 Dixon raised three fundamental questions for marketing.

- "(1) Is there a conflict or harmony of interest among the members of the marketing system?
- (2) What is the mechanism which integrates the behaviour of individual system members with the goals of the system as a whole?
- (3) To what extent does this mechanism require supervision, and what principles govern this supervision?"

The paper examines three interrelated systems of thought, in particular the analytical system of Adam Smith presented in Wealth of Nations and concludes that the conceptual models of that period did not rely upon the completely free reign of self-interest, but that all writers indicated the significance of a co-existent ethical system. Dixon referred to Sir James Stuart who believed that in the operation of society, the statesman utilises man's self interest to achieve the public good; while the French Physiocrats held that the individual's self interest is identical with that of society as a whole because God so created the world. (p.11.)

Dixon points out that Smith himself held that man's behaviour is regulated by his "natural love for society", so that mutual sympathies and desires for each other's sympathies interconnect to give rise to systems of shared moral sentiments which make the spontaneous behaviour of each contribute to the common welfare. Underlying man's behaviour is the principle of justice (which seems regarded as a given by Smith) and is essential to the survival of society.

While Smith believed that society would be "more happy and agreeable" if the motivation of the individual members was "generous and disinterested" he also recognised that it could still subsist from a sense of utility without any mutual love and affection, and could be still upheld by "a mercenary exchange of good offices according to an agreed value". It is this "mercenary exchange" that Smith uses as a framework to demonstrate his economic theory.

Smith's argument is that self-interest produces morality because the individual must see to the collective good to achieve his own ends, and as the economic framework which he uses to develop this seems to support his view, so he concludes that mechanism to be self regulatory.

Sociologists, however, who search for universal laws to explain society regard the economic system and the marketing system as particular cases of social organisation and not as the basis of a general theory of society or its component social organisations. They argue that Smith's self-regulating mechanism has not worked in any economic system and that these have grown up rules and regulations as well as legislation with severe penalties attached to negotiate marketplace behaviour.

Comte (mentioned previously) while referring to Smith's "Ruminous analysis" relating to the discussion of employments (p.204) was nevertheless critical of Smith and his successors for their belief in the self-regulating character of the market and remarked that "laissez-faire" systematises anarchy. (p.206.)

It therefore is apparent that Smith places self interest as the organising mechanism of society and gives common beliefs a secondary importance. Sociological theory however treats common beliefs as being the mechanism by which society retains coherence and accepts the possibility that the degree of self orientation existing among members will determine to some extent the degree of supervision needed to maintain adherence to common beliefs for the benefit of society. Morality therefore arises from society rather than from the individual.

The central proposition regarding "common beliefs" is nicely illustrated by the next two papers to be considered.

3.3 The two papers, one by Loewer and the other by Mason and della Bitta were both concerned with underlying sets of beliefs about some aspects of the contemporary system which are generally subscribed to by consumers and marketers, and looked at from this point of view demonstrated some effects of common beliefs on the cohesiveness of the social organisation known as the marketing system.

Loewer's paper describes the historical process by which the "one-price" policy became part of marketing, covering the multitude of everyday items purchased from retail stores by the general public, i.e. one price for goods of the same quality purchased at the same time from the same retailer. It had its beginning in the religious principles of the Quakers which forbade bargaining and insisted on honest dealings,

so that even a child was well-treated. The commercial success which followed, persuaded other merchants to adopt similar behaviour towards customers.

This innovative behaviour on the part of some retailers gradually became embedded in marketing practices as a common belief held by all participants in the marketing system and as the writer points out, has formed the basis for the system of mass marketing, including mail order catalogue sales, vending machines and supermarkets.

The "one-price" policy is an interesting example in marketing of the reconciliation of both the self and the collective orientations mentioned earlier. Loewer reports that he finds no specific legislation to enforce it, although legislation tends to support the policy, in practice and as a matter of justice.

In essence then, there is found here a system of common beliefs, so useful for the maintenance of a cohesive social organisation that the threat of informal sanctions against violation is all that is needed to maintain it.

3.4 The third paper under review, by Mason and della Bitta, explores the incidence of quantity surcharge in supermarkets, a practice which involves charging more per unit for large size packs than in small size packs. The authors document an apparent misuse of a common belief held by consumers, which is used readily in making purchasing decisions. It is generally believed that larger packs are cheaper per unit than smaller ones because of savings to the retailer on packaging, advertising, inventory and handling costs. Most consumers regard quantity surcharge as deceptive - the violation of an established principle. As such it provides an example of the need for supervision of the integrating mechanism of the marketing system.

In this case the common beliefs are not basic for the marketing system to function and so, rather than seeking legislation banning the practice outright, the concerned participants are a defence against the practice by giving the consumer the information needed to make a rational choice.

By pointing to the low awareness of the practice the authors highlighted the powerful nature of "common belief" systems: to the extent that this trust is later perceived to be misplaced, the marketing system as a whole will suffer.

4. Conclusion

Further use of these ideas is suggested in the following table which can be used to classify various marketing practices. If marketing practices are outside the common belief structure and are significantly more oriented towards expediency than towards the mutual rights and obligations of the marketing system members, then the strains in the marketing system will become so severe that extreme legislation will be demanded in order to preserve the integrity of the system.

Table

It appears then that use of concepts from classical sociology, in this case the importance of "common beliefs", can throw light on the functioning of the marketing system and should be recognised as essential in the development of macro marketing thought.

Orientation

Self

Collective

Within
common
belief
structure

High
pressure
selling

"Responsible"
marketing

Marketing
Strategy
Base

Outside
common
belief
structure

Quantity
surcharge

Legalisation
of some drugs

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THE LOGIC OF ESTABLISHING
VALUES MONITORS
FOR USE IN BUSINESS AND INDUSTRY

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THE LOGIC OF ESTABLISHING
VALUES MONITORS
FOR USE IN BUSINESS AND INDUSTRY

ABSTRACT

Ethical judgements in business both influence and are influenced by human values. Business people must understand both impacts in order to make the best decisions for society. This article suggests that a system of value monitors be established to aid business people in their ethical judgements. To do so the benefits of these monitors are further discussed and the underlying ethical premises are identified. Among their several uses, these premises identify the ethical philosophy that has been assumed in suggesting that value monitors be created. Finally, an outline for establishing these monitors is suggested that includes a societal segmentation process.

THE LOGIC OF ESTABLISHING VALUE MONITORS
FOR USE IN BUSINESS AND INDUSTRY

This article has two basic objectives. The first of these objectives is to establish the reasons for using value monitors while the second objective is to suggest how these monitors might be developed and the rationale for that approach. In order to move from the first objective to the second, the underlying assumptions or premises will be identified. Establishing these premises is necessary because in general, there is a dearth of information available in the application of human values to marketing settings. Further, the material which does exist is by no means unanimous in its treatment of the issues. Therefore, if the paper is to be truly useful in this stage of the development of the literature, authors must make an effort to identify the premises underlying their actions and recommendations.

The section which immediately follows is an attempt to establish the benefits of value monitors for use by business and industry. The second section in this paper concerns those underlying premises mentioned above, while the third section presents a rationale for implementing a system of value monitors. The final section of this paper offers some conclusions and caveats for those individuals who might be interested in pursuing and implementing the suggestions presented in this paper.

Benefits Derived From Knowledge of Values

There are many benefits to business and industry which would accrue with the establishment of value monitors by organizations or industry associations. One benefit lies simply in the establishment of the meaning

of "ethical behavior". A major problem of many marketing managers who want to do the right thing is simply knowing what is "right" and "wrong". An extension of this idea would be for the marketing manager to know and understand the impact of any of his actions on the perceptions of that organization's publics. Knowing how people feel initially and what their reactions might be to potential organizational behaviors should be a great aid to marketing managers who wish to behave ethically.

A second benefit to be achieved from the use of value monitors represents the further extension of the first idea. Understanding the values of the many publics faced by an organization should help them avoid regulatory intrusions by governmental agencies. Further, value monitors should aid organizations that face action by regulatory agencies. As an example, the recent rapid growth in the use of consumer research by the Federal Trade Commission of the United States government (see Guerard, Snyder) has forced many organization facing litigation to use short term research geared to the particular problem under attack. The availability of a long term value monitor would provide research with a higher validity and reliability than that used by the regulatory agency. This recent increase in the use of consumer research by the U. S. Federal Trade Commission may well be the precursor of an expanded use of research by regulatory agencies all over the world. If that situation were true, consumer policy decisions by these agencies might better reflect the true costs and benefits of those decisions.

The third benefit of establishing value monitors occurs when potential pressure groups are identified. In the broadest context of society and in business as part of that broader society, certain individuals and groups

of individuals often have much more influence on social policies than their numbers would seem to dictate. The increase in class action suits of all types is an example of their influence on organizations. Value monitors, which identify segments of the population according to their potential for action, would help organizations spot potential pressure groups before they acted. The organization involved could then determine whether the concerns of these pressure groups were legitimate and in the best interest of society and either react to their concerns if they are legitimate or attempt to defuse those concerns if they are not.

A fourth rather obvious benefit of understanding societal values comes from improving lobbying efforts in the political arena. If legislators of policy at all levels of government can be shown that a particular action is in the best interest of society, lobbying for that position should be enhanced. Obviously, a potential for misuse in this same arena also exists. However, if the societal benefits compared to costs are to be maximized, both parties must have access to information about what society deems right and wrong. Thus, one group of organizations which should maintain value monitors are the same governmental and regulatory groups already discussed.

A further significant benefit from maintaining value monitors in those areas of concern to a particular organization is an increased sensitivity to changes over time. The ability of an organization to identify culturally based trends that are determined by values places that organization in the best possible position to take advantage of these trends. The benefits to micromarketers could be substantial and that potentiality could be enough reason to justify the establishment of value monitors.

Perhaps the most important benefit to an organization is simply in understanding the impact of its marketing activities on human values. Unquestionably, different segments of a given population are influenced in different ways by marketing activities. These changes in cultural and subcultural mores and behaviors can be both positive or negative in nature, but in either case, both the marketer and the society within which he operates is better off by knowing exactly what these influences are. Opinion polls, advertising and other promotional activities, organizational/political-legal-regulatory interfaces may do more to establish or change values in an unintended or covert way than any overt attempts make by the same organization. If this covert impact is as real and it seems to be, organizations are less likely to understand the full impact of their actions than if their original intent was to overtly affect values in a prescribed way. Of course, unintended changes may produce important affects in the same way that intended changes would, and it is important for the marketing practitioner to understand the nature of these influences.

Underlying Premises

There are three sets of values that interact in any marketing application of an ethical choice process. These three sets of values include the values of the individual, the values of the organization, and values of society. This paper is primarily concerned with monitoring the values of society. Consequently, the first premise covers an initial condition for the first two sets of values, and may be stated:

Premise No. 1: Marketers want to behave ethically.

If either the individual or the organization for whom the individual

works will except unethical behavior, the benefits of the value monitor change from those stated in the preceding section. In this new setting, value monitors may still be extremely useful, but they may be used to society's detriment. However, if governmental agencies are operating similar types of value monitors as checks on the system, such anti-social behavior ought to be minimized.

The second premise deals with the definition of ethical behavior and is stated as follows:

Premise No. 2: Ethical behavior is achieved when an individual (a) understands which behavior in which circumstances are within the acceptable scope of the values of the majority of society; which behavior is not within the domain of the values for the majority of the population; and which behavior is not an activator of values for the majority of the population, (b) exhibits a willingness to act in a manner that will satisfy the values of a majority of the population while avoiding other behavior classified above as being unethical.

The above definition of ethical behavior can easily be the subject of dispute. It represents an aggregative majority rule approach of defining what is ethical and does not make use of the potentially strong feelings of a minority especially when compared to the weak feelings of a majority (Arrow). Another approach that would be difficult to operationalize but has considerable appeal would involve a weighted average of cardinally measured utility. In this approach the intensity or importance of a particular value related action is incorporated into the measure. The majority rule approach suggested here accounts for only the preferred direction of the behavior. However, in approaching the problem from a one-person, one-vote method, several of the problems posed by Social Choice theorists are eliminated (Arrow).

The third premise establishes the ethical philosophy for the paper and can be stated as follows:

Premise No. 3: There are no absolutes in dealing with the values of individuals. Therefore, different individuals, cultures, and subcultures have life directing values that differ in the number, content, direction, intensity, and clarity with which the value is understood. Further, human values are flexible and change over time and they are far from obvious to even the trained observer.

Premise no. 3 leads to what has been called "ethical relativism" and rejects concepts of moral universality. Relativism in this sense, however, recognizes some plurality of values and the use of segmentation concepts are suggested as a means of identifying the homogeneity in the values of relevant publics. Value monitors would then be used to track these segments over time and identify changes as they occur.

The fourth premise is a fairly straight-forward presentation of what seems to exist in the market place. It states:

Premise No. 4: The different individuals, cultures, and subcultures and their permanent values operate as causal influences in many micro-marketing outcomes. They are especially prevalent in the buyer decision process, the marketing-government interface, and in international environments, but occur in virtually every aspect of micromarketing strategy.

Acknowledging the impact of the societal values on micromarketing is as important to the thesis presented here as is the impact of micromarketing's impact on societal values.

The purpose of the fifth and final premise is to separately recognize the different segments of the population that has been mentioned previously. It states:

Premise No. 5: The population of any generalized culture can be subdivided into common, often unequal segments based on the number, content, direction, intensity, and clarity with which individuals perceive the value.

Obviously, whenever possible, organizations ought to attempt to satisfy each segment subject to the constraints that exist both within and outside that organization. However, sometimes one act by an organization must satisfy, to

the extent possible, all of the society, and in such a setting the majority rule premise already stated should dictate action.

With the benefits and the underlying premises now evaluated, it is time to turn to the question of how to best establish value monitors. That topic is discussed in the section which follows.

Establishing Value Monitors

The initial phase in establishing values monitors is identical to the market segmentation process. Panels are formulated for monitoring purposes during the middle stages of this process in order to identify true causal changes in values and to follow the impact on marketing behavior on values. The final phases for developing value monitors are concerned with determining why certain values exist by focusing on related salient beliefs and their strengths, the clarity with which values are held, the action potential of all segments due to changes in the related environments (plus what specifically that behavior might be), and the instrumentality of various behaviors by the monitoring organization.

The early or segmentation stages of the process begin with qualitative research to establish hypotheses about values that are important to the organization's interaction with society. These values can be thought of as principle benefits sought by segments of society. Once these important values are established then demographic and psychological characteristics of the different segments should be sought in order to identify each segment. Of course the different sets of values, the strength of these values, and the propensity for social action when organizational actions are incongruent with a segments values are all important bases for the segmentation process.

There is much to recommend an ongoing monitoring process. Perhaps the most basic reason is the general lack of knowledge by society of the organization/society interface. This lack of knowledge can produce rapid changes in attitude with something as simple as a new bit of information supplied by the news media. Probably the most efficient method for developing an ongoing monitoring process is through the creation of a panel. The costs and benefits of maintaining a panel are generally well-known and will not be discussed in this paper; however, the monitoring of a carefully selected and maintained panel can provide a desirable "feel" of the market.

Once the segments and the panel have been established, the focus of attention should be on the instrumentality of various actions by the organization in activating values of the segments of society. The changing of beliefs salient to the values and the importance of each must be determined. Value clarification is also important because individuals who do not have a strong and clear understanding of their value system will probably have less stable values and being able to predict their actions will be difficult.

Any organization monitoring society's values will want to know if certain actions are appropriate to them and what the probable outcome of those actions will be should they be undertaken. Possible actions to be considered would include the modification of behavior within the organization (e.g. production and micromarketing activities might be modified), additional information not formally available might be supplied to the population, action which might be important to certain segments but are of little or not concern to other segments might be considered, or finally, the organization might choose to maintain the status quo for the present and keep monitoring the segments of society that are relevant to them. Measures should be made available to aid the organization in

determining which if any of the preceding actions, or others unique to their situation, should be undertaken.

Conclusions and Caveats

One of the most obvious conclusions to an individual familiar to marketing activities must be the important role that marketers have to play in establishing value monitors. Everything from selling the role of value monitor to upper level management to actual implementation and establishing panels can probably best be performed by marketing personnel. Marketers represent the major link between any organization and its publics. No other group is in a better position to understand the impact of both suitable and unsuitable behavior from an organization.

Another conclusion and a warning concerns one of the premises presented earlier in this paper. Values of individuals and/or organization may be such that they do not want to behave ethically. In such a situation, value monitors can also be used to indicate the best route for manipulating society or at least muting its protests. Therefore, checks must be established by those individuals and organizations wishing to protect society. However, decisions by all parties made on the best possible information are more likely to accomplish a desired objective than decisions made with less information. Value monitors are one approach for obtaining "better" information.

The manager faced with making ethical decision will not be freed from difficult choices even if a strong system of value monitors is used by his/her organization. However, the impact of his/her choices should be better known and well meaning managers will be less likely to blunder into undesirable behaviors. Further, the insight into the organization's affected publics should

provide a kind of insight that was not previously available. The basic economic models of the organization's role in society focuses on the end results of operating in the market place. Alternatively, however, much of the disillusionment with business and its behavior comes from the means used to obtain those ends. With value monitors as an aid the modern manager of an organization should be able to adjust the means used to achieve desired ends in a way that will minimize costs to society. The net result should be better organizational images produced from a society that is more content with organizational operations.

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POPULATION CONTROL AND ENERGY CONSERVATION:
A COMPARATIVE PERSPECTIVE

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National efforts to improve and maintain standards of living have been affected by uncontrolled population growth in developing countries and by high energy consumption in developed countries. While the 'population problem' has been the focus of international attention for decades, the energy issue has become salient relatively recently. While these two problem areas differ in their relevance and seriousness, there are also several interesting similarities. This paper discusses these similarities and differences in the context of the population program in India and the energy program in the United States.

The Problems in Perspective

The population problem is defined for most parts of the world as one of uncontrolled growth. In the developed countries, however, the problem is rapidly emerging as one of zero or even negative growth. Views on the population problem differ depending on who is focusing on the growth rates. Many developing countries see the high growth rates in their countries as a boon because of the implications for market size, labor strength and national defense (Epstein 1971, Heitleriger 1976). But the increasingly common view among developing countries is that population growth be limited (Ridker 1976). This is supported by developed countries who are threatened by the high rates of growth in the developing world. They have, therefore, funded international programs to control population growth in the Third World (Epstein 1971).

The low, and even negative, rates of population growth in many developed countries are viewed with alarm by some (Heitleriger 1976). There are programs to encourage population growth through various incentives and allowances.

However, it is not an issue of high salience and there

are no concerted, international efforts to influence the population programs of the developed countries.

The energy problem is frequently defined as an issue of national sovereignty since most countries import a significant share of their energy requirements. It is generally not defined as a problem of uncontrolled or high rates of growth and is yet to receive the kind of international attention as the population problem.

The energy problem is most salient in developed countries where per capita energy consumption is high and where energy constitutes a major component of the country's standard of living. High rates of energy consumption is considered to be necessary to maintain the standard of living and emphasis, therefore, is on finding and developing alternate and friendly sources of energy rather than on reduction of energy consumption. This is especially true in the United States. While most developing countries also face a problem of import dependence, these countries are characterized by very low per capita rates of energy consumption. Their problem is one of increasing energy use to promote development rather than reducing consumption.

Population, Energy and Development

The demographic transition has historically produced high levels of economic development while reducing the rate of population growth (Fredericksen 1969). Industrialization, urbanization, literacy and education led to far reaching social changes that made a significant impact on fertility trends in the (currently) developed countries. Population growth slowed as a result of these complex social changes and without any concerted effort directed at population control. These structural changes continue to impact population patterns which are leading to low and even negative growth rates in the developed countries.

Developing countries, however, have emerged late into the body of industrialized nations and find the demographic transition increasingly irrelevant and difficult to duplicate (Teitelbaum 1975). With developmental goals clearly specified, usually in per capita GNP terms, population growth rates are increasingly viewed as constraints on development. Therefore, specific policies and programs are being considered to slow population growth rates. In a survey of developing countries, 80 percent of them had an official population policy (Nortman and Hofstatter 1980).

The evidence on population size and development, however, is mixed. Keesing (1968) found small countries (in terms of population size) to have a comparative disadvantage in international trade. A developmental strategy based on industrial goods requires a large population as a labor force and an internal market. This implies that a sound population policy articulate not only desirable growth rates but also desirable population size, density, rural-urban ratio, etc. Instead, the focus is primarily on the high birth rates which is shifting the age composition of the population and requiring a large share of the developmental resources. Developmental resources are being directed away from productive activities which only maintain existing capital-labor ratios, further restraining development.

While there is a negative relation between population growth and development, there is a positive relation between development and energy use. It appears necessary to have high levels of energy use for high levels of industrial development (Dormstadter, Dunkerly and Alterman 1977). Therefore, high energy use is desired by all countries. However, views on the absolute size of energy use differ. Variations in energy use within

highly developed economies indicate that there may even be a negative, albeit modest, relationship between social welfare and energy use (Buttel 1979, Darmstadter 1981). This is especially true when social welfare is defined by noneconomic indicators (Buttel 1979).

A cursory analysis of the energy problems around the world indicates a lack of clearly articulated programs or policies. Unlike the population program, energy is not a highly salient issue although there are some attempts to see it strictly as an element of the North-South dispute on the economic order (Donges 1977). The position of most developed countries is to at least maintain, if not increase, current levels of energy use. This is especially true in the United States where the energy problem is primarily viewed as one of political dependence on foreign sources (Energy Policy and Conservation Act 1975). Developing countries have no alternative but to increase their very low levels of energy use. To this extent, it becomes important to their efforts to develop a concerted and global policy on energy resources and energy use. However, the complex interdependencies between energy, population and development have so far resulted in highly articulated policies and programs for population but not for energy.

A View from the Ground

At the international level, it is quickly evident that the population problem exists for the poor countries while energy is an issue of some salience to the rich countries. The underlying conflict is accentuated when one examines these two issues in greater depth (see Table 1 for Selected Statistics).

Changing Environment. Environmental changes have created both the population and energy problems. Population growth in the developing countries is a result of improvements in public health and sanitation that drastically reduced mortality rates while fertility rates declined only slightly. In

Sri Lanka, for example, 42 percent of the post-war decline in death rates has been attributed to the malaria eradication programs.

Energy use in developed countries has also grown out of environmental forces. A package of economic incentives has historically promoted and rewarded energy consumption. Low priced gasoline, a highly developed inter-state network of highways, volume sensitive utility rate structures, tax incentives and other facilities have led to high rates of energy consumption (Furtek 1979; Levy 1973; Newman and Day 1975). This has resulted in a standard of living characterized by single family dwellings located at considerable distances from work places, private automobiles and ownership of multiple household durables (Kelly 1975; Newman and Day 1975).

Impact on Consumer Segments. The improving health and nutrition standards have had a significantly greater impact on the poor who constitute the majority of the population in the developing countries. They are also less educated and live in the rural areas (Gulhati 1978). To these parents, development has meant more infants living and living longer--an event of great joy and happiness. Their economic realities, however, are still characterized by high mortality rates and lack of economic opportunities. They favor larger families as a way of improving their lives. The cumulative impact of this is, of course, the population problem.

One obstacle to higher rates of change in fertility behavior is the age composition of the population. A significant segment of population is young and in the highly reproductive age groups. Even a family size of two children would lead to a significant increase in population and two children are by no means the most desired family size (Mamdani 1972). Therefore, even if the population universally adopted birth control, the impact would not be as great as desired. The likely impact is reduced even further

since birth control behavior is not universally adopted even though repeated surveys have shown some desire to limit family sizes (Berelson 1966).

The household contribution to the energy issue is quite significant in the developed countries and accounts for over a third of all directly consumed energy in the U.S. (Darmstadter, et. al. 1977; Newman and Day 1975). Transportation and space heating contribute the most to energy use since the passenger car in the U.S. travels more and the single family dwelling has more space per capita to heat than in other developed countries (Darmstadter 1981). Within the household sector, the affluent consumer segments contribute most to energy consumption as the primary determinant of household energy use appears to be income (Barth, Mills and Seagrave 1974; Berman and Hammer 1973; Grier 1976; Herendeen and Tanaka 1976; Levy 1973, Lockeretz 1975; Morrison 1979). Even though the affluent segments consume more energy per capita, they spend a much smaller percentage of their annual household budget on energy (Kilkeary 1975; Grier 1976; Newman and Day 1975). The economic impact of the 'energy crisis', therefore, is greater for the poorer consumer segments; however, they are not heavy users of energy because they live in smaller homes, in multiple dwelling units, own fewer appliances and use public transportation modes more (Barth, et. al. 1974; Bloom 1975; Donnermeyer 1977; Newman and Day 1975).

With the large segment of the U.S. population characterized as affluent, energy use becomes a problem if defined in terms of consumption. There also appears to be a popular belief that a significant portion of the American consumer's energy consumption is discretionary. Several surveys of public opinion have revealed that people believe the energy crisis would be solved if individual consumers cut down on energy consumption (Cunningham and Lopreato 1978; Donnermeyer 1978; Gottlieb 1978; Murray et. al. 1974).

Despite this belief and favorable public attitudes toward voluntary conservation, these surveys have not been able to report a high degree of individual conservation behaviors (Bartell 1976; Hyland et. al. 1975; Keck et. al. 1974).

Marketing Management Approach
to Population and Energy

Marketing Approaches

Both an information-communication approach and an incentive-disincentive approach have been adopted to change the attitudes and behaviors of consumers contributing to the population and energy problems.

The education-communication approach has generally been adopted first in the belief that people are rational but did not have adequate or accurate information to act on them (Barnaby and Reizenstein 1975; Morrison 1975). However, as the problem persisted or even grew in urgency, more direct motivational inducements in the form of incentives and disincentives have been increasingly offered to influence individual behaviors (Hickman 1972; Pitts and Willenborg 1981).

Family Planning in India

India, for example, has rapidly changed its role of family planning program from one on information and communication to that of action and research. Incentives are now offered for adopting specific birth control procedures; these incentives are made available not only to the final adopter (or consumer) but also to various intermediaries such as health workers, doctors and other 'motivators' (Finnegan 1972). When such an action-oriented program is designed and implemented through concerted effort in a localized setting, results have been extremely favorable in terms of number of adopters (Rogers 1972).

Thirty years of an active population program have created some significant results: The birth rate has declined by 16 percent between 1965-1975 (Mauldin and Berelson 1978, p. 110); 22.6 percent of married couples (with the wife aged 15-44) have adopted some method of contraception (Nortman and Hofstatter 1980, p. 69) and the median number of living children has fallen as couples with smaller families have become adopters (Nortman and Hofstatter 1980, p. 56, 59). However, performance has varied within the country--being higher in urban areas and among the affluent households (Gulhati 1978; Nortman and Hofstatter 1980, p. 69-70).

Energy Conservation in the U.S.

Similar approaches have been adopted in the U.S. to create energy conservation behaviors. The information-communication program has relied on providing two types of information: general information about energy use and specific information about individual energy use. While information on the energy crisis appears to positively affect intentions to conserve energy (Hass, Gerrold & Rogers 1975), it produces little or no effect on actual conservation behavior (Hayes & Cone 1977; Heberlein 1975). In fact, information alone might even increase energy use (Battalio et. al. 1976). Direct feedback of one's own energy consumption, while providing valuable and personalized information to a consumer, appears to be also limited in its impact on energy conservation behavior (Battalio et. al. 1976; Seaver and Patterson 1976). When it does have an effect on behavioral response, feedback as a mechanism appears to be relevant mostly for moderate users of energy and not for the heavy user (Seligman and Darly 1976).

Behavioral change has been most successfully created by conservation programs that have offered some form of incentives. Battalio et. al. (1976) offered price rebates, the Connecticut Power and Light Company (1976) offered

differential prices for peak and lull periods and Hayes and Cone (1977) offered direct payments. All these programs were able to elicit the desired behavioral responses. In fact, payment alone produced as much or more change in behavior than payment combined with information or payment with feedback (Hayes and Cone 1977). This is supported by survey research which has found reported conservation behavior to be attributed to energy price increases rather than knowledge of or belief in energy shortages (Morrison, Keith and Zuiches 1979).

Unlike the population program where behavioral change has been greater among the affluent households who do not "contribute" as much to the population problem, the energy program has elicited greater responses from the poorer households who also do not "contribute" as much to the energy problem. The modest price increases of energy have managed to produce small changes in the behavior of affluent households such as reduced use of ovens, vacuum cleaners (Keck et. al. 1974) but not much meaningful change in total space conditioning and travel behavior (Perlman and Warren 1977; Stearns 1975). On the other hand, conservation behavior has occurred mostly among the low income, the elderly and the ethnic minorities who have not been able to absorb the price increases (Bloom 1975; Cunningham and Lopreato 1978; Gottlieb and Matre 1976; Kilkeary 1975). Greater conservation by the lower income households came not only from reduced energy use (Perlman and Warren 1977) but also from major shifts such as in the mode of transport used (Stearns 1975).

Marketing and Social Vulnerability

When consumer segments differ in their values, attitudes and behaviors with respect to a specific product or issue, it raises questions about the social impact of marketing approaches. In the context of population control

in India, it has been seen that the segment which contributes most to the population problem is poor, uneducated and relatively powerless. Economic incentives have been quite successful in eliciting responses from these segments, especially if they are embedded in an integrated communication-service program. The Ernakulam Vasectomy Campaign is frequently cited as one such program; it generated 51,000 males to undergo the surgical procedure in a period of days (Rogers 1972). However, post evaluation studies have revealed a disproportionate number of volunteers drawn from the poor, attracted by the sizeable incentives offered during the neediest season (IBRD 1974). Substantial post adoption regret has been created by such methods (Blaikie 1975). Frequently, the behavior is irreversible and impact negatively on the consumers' welfare.

A similar problem exists for the energy issue in the United States. Although the segment that contributes most to energy consumption is educated, affluent and highly developed, information and communication strategies have not been very effective in promoting energy conservation behaviors. Instead, economic incentives have been most successful in creating behavioral responses. However, these have been temporary or limited among the affluent who are the heavy users of energy (Kohlenberg, Phillips and Proctor 1976); and more meaningful among the poor who are modest users of energy (Perlman and Warren 1977, Stearns 1975). In fact, it appears that the responses of the poor may be nonvoluntary and jeopardize their own welfare (Grier 1976; Newman and Day 1975).

The empirical effectiveness of economic incentives in eliciting behavioral responses may lead social program planners to emphasize and offer them. A marketing approach would probably lead to the design of incentives that attract the largest number of responses in the shortest

period of time. The social impact of such approaches can be quite direct and negative as the neediest segments respond to these incentives. While the population problem may be "solved" by such an approach, the political and ethical consequences of such an approach to social change may not be manageable. The energy problem can also be 'solved' by such an approach but at an exceedingly higher cost since the relative attractiveness of economic incentives has to be quite large for the affluent segments to respond. The inequities of affecting the poor while attempting to change the behaviors of the rich are particularly glaring for the energy problem in the United States (Pitts and Wittenbach 1981). These inequities magnify when the population problem in the poor countries are viewed along with the energy problem in the rich countries; the interdependencies between the two problems cannot be easily ignored.

A more enduring approach to social change in the context of energy and population growth is structural reforms. This approach attempts to change the underlying rationale and infrastructure that supports large families or high energy consumption; while the relationship between a structural change and consumer response is often indirect, diffused and even tenuous, the response tends to be more permanent and basic.

In the context of population growth, two major directions that may be adopted include rapid economic growth as in countries like Singapore, Hong Kong, Taiwan or South Korea; these countries have experienced substantial declines in birth rates (Maulden and Berelson 1978). Economic prosperity removes the need for larger families as well as increases the cost of larger families, leading individuals to have fewer children. The alternative approach is to fundamentally change the social values and institutions that support

large family size norms, as for example in China and North Vietnam. These two countries had higher declines in birth rates between 1965-1975 than India (Mauldin and Berelson 1978). A more emancipated role for women, land reforms, equality of opportunity, basic and universally accessible health care are some of the elements of the structural changes needed to support smaller family norms.

Similar alternatives exist for the energy problem. A structural shift is required to define development; only then can the modest, but negative, relationship between energy use and social welfare be meaningful for social change. Instead of 'big is beautiful', consumption alternatives need to be energy efficient. Such responses are already evident in the design of cars, homes and household appliances (Energy Fact Sheet 1982). In influencing the energy efficiency of these major household items, consumer choice structure has been affected and energy becomes a salient attribute in consumer decision making (Bernhardt 1979).

However, these efforts are still limited and often half hearted, especially in the United States. While consumers have become more "energy conscious", there is still a great resistance to changing their lifestyles which are attempted to be maintained until the costs become prohibitive (Pitts, Willenborg and Sherrell, 1981). This can be seen in the limited response of U.S. car manufacturers who believe lower gasoline prices will prevail and that larger cars reflect real consumer preferences.

Structural changes must consider the interlinkages between elements of a consumption system (Firat and Dholakia, 1982). For example, the decision to promote detached single family dwellings practically eliminates the options of not having individual laundry machines. In fact, the laundry

machine decision is made only at the type-of-machine/brand level (Dholakia, Dholakia and Firat 1982). While greater energy efficiency of laundry machines influence total energy used (Bernhardt 1979), it does not meaningfully alter the structure of the consumption system. It requires a rather drastic reconceptualization of resources, their use and development before such structural changes can be developed or promoted (Hardin 1968; Lovins 1977; Shapiro 1976). So far, American policy makers and the American public have not shown strong convictions that such a change is necessary (Milstein 1979).

Conclusion

In both areas of population and energy programs, consumer attitudes have been weak predictors of behaviors (Bhandari 1978, Fritzsche 1974). Researchers have favored taxes, rationing, allowances and other economic incentives and penalties to force behavioral change (Finnigan 1972; Murphy, Laczniak and Robinson 1979). Marketing management has been influential in these processes through the design of incentives and their delivery systems (e.g. Hickman 1972; Henion and Kinnear 1976).

These approaches have been limited in their impact, and frequently negative. In the context of population control in India, incentives have increasingly attracted the poor based on short-term gains. In the context of energy program in the United States, price increases have negatively affected those "not discretionary" in their use of energy. While the "resistance" to population control is considered a deterrent to development, resistance to energy conservation is not similarly viewed. Instead, the emphasis has continued to be to substitute domestic resources for imported energy sources. These views, therefore, perpetuate the belief that popula-

tion growth must be controlled in the Third World because resources are limited for development while energy resources are not limited for the use of the developed countries.

Both the programs exhibit a reluctance to adopt structural reforms in order to achieve program goals. In the case of population control in India, these structural reforms have far reaching implications which are politically unfeasible. In the case of the energy program in the U.S., the political implications extend beyond the national boundaries and affect the structure of the international economic order. Given these constraints, marketing approaches to both these problems must attempt to achieve program goals without creating the negative impact on society and that constitutes the challenge to social marketing.

Population Control in India and Energy
Conservation in the United States
Selected Statistics

	<u>India</u>	<u>USA</u>
1. <u>Population</u>		
a. Size 1978 (est.)	638 mill	218.5 mill
2000 (proj.)	1,037 mill	260.4 mill
b. Growth rate (natural increase per 1000 pop.)	19	6.5
c. Density (per sq. km in 1978)	193	23
d. Age composition (1978 est.)		
< 15 years of age	41%	24%
> 65 years of age	3%	11%
e. Life expectancy at birth (1975-80 est.)		
Male	52.6	69.1
Female	51.6	77.0
f. Infant mortality rate (1978)	122	14
2. <u>Energy Consumption</u>		
a. Per capita energy consumed (1976) (kg of coal equiv.)	218	11,554
3. <u>Socioeconomic Indicators</u>		
a. Per capita GDP (U.S. \$)	141	8,665
b. Annual growth in per capita GDP	0.4%	1.9%
	(1970-76)	(1970-77)
c. Per capita food production index (1975-77) (1969-71=100)	98	112
d. Pop. per physician	2.9 thousand	0.6 thousand
e. Pop. per hospital bed	1.5 thousand	0.2 thousand

Source: D. L. Nortman and E. Hofstatter, Population and Family Planning Programs,
A Population Council Fact Book, 10th edition, various tables.

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Fred E. Emery, July 1961

The interest in macro-marketing can be traced quite easily to the well-documented changes that have taken place in marketing since the late 1960's. This interest has led to considerable theorizing but it is not, in itself, ^{simply} a product of academic theorizing.

For some fifteen years after the emergence of the modern mass markets in the early nineteen fifties it seemed that marketing, as a field of study, was simply determining how we controlled the gap which had emerged between mass production and salesmanship. Whether our preferred tools were those of Dichter, survey research, experimental design or statistically sophisticated desk research we quickly worked ourselves into that state of mind that the ancient Greeks labelled as 'hubris'. That is, quite out of our minds with the headiness of our successes. In the late fifties and through the sixties I shared that hubris. In fact, by historical standards, i.e. pre-television, some of the modern marketing experts were performing miracles. It seemed as if there were no areas of marketing where we could not overturn traditional notions if we got an adequate opportunity to apply the scientifically based tools and constructs that we were forging.

Reflecting on that period I have been reminded of what the Greeks further observed about the state of hubris, namely, 'that those whom the Gods are about to destroy they first drive mad'. The cure that they suggested was 'know thyself'. This we made little attempt to do. Continuing full employment, vastly extended credit systems, social welfare supports and predictable growth in real wages and salaries made the future projections of people like Herman Kahn quite believable. We did not reflect on the fact that this was a very unique historical set of circumstances that was not even two decades old. We did not wonder

whether this unprecedented sense of security and personal progress might lead to the questioning ^{of} values and institutions that had evolved over centuries to stabilize and control insecure masses who had little if any hope of sharing in the growth of national wealth. We simply assumed that, like the 'nouveau riche' of the past, the masses, as they moved into higher income brackets, would simply ape the cultural and market behavior of those who were previously in that bracket.

In one way we should not be too self-critical for being so blind. After all, the economists were almost unanimous in asserting that, with the emergence of Keynesianism and neo-classical economic theory, there would be no more violent and deep swings such as had plunged every second generation into a Depression since mid-eighteenth century. The sociologists, and even such radical critics as Herbert Marcuse, were endorsing the notion of 'embourgeoisment'. However, our special claim to recognition was that we were closer to the ordinary everyday behavior of ordinary everyday people than any other discipline than ~~any~~ anthropology, and its subjects were in the villages of Asia and other under-developed places. Looking back it seems that we were on the spot but did not care to see.

It, the picture, is a little worse than that. Paul Lazarsfeld, a major contributor to the foundation of marketing research, was commissioned by the American Marketing Association, to study what was happening in society at that time. He pointed to a major emerging phenomena (19). The consumer, as we knew him/her in those heydays of 'mass marketing', was undergoing a transformation. The roles of the individual as producer, consumer, family member, church goer, saver and citizen were merging into the concept of the individual - a relatively well educated, secure and self-

respecting person. The stultifying separation of these roles that had characterized the development of the labor force since the eighteenth century was undergoing a dramatically rapid reversal.

Lazarsfeld was noting a cultural change. Changes in our social institutions had yet to follow. Nevertheless, if we had pondered on his observation and connected this with the odd blips appearing on our monitors of consumer and buyer behavior, we should have had earlier fore-bodings of a super-saturated field. It should have been clear that it was only a matter of time ^{before} ~~that~~ a Ralph Nader would appear to crystallize a consumer movement of quite new proportions; a Rachel Carson for conservationism; a Vance Packard for truth in advertising. Given Lazarsfeld's point, there was no way that people could avoid starting to look at what we expected from them as consumers without reflecting upon their inalienable rights as citizens in a democratic state; their expected duties to their families and their experiences at work of what actually went into creating so-called 'value-for-money' in the products that were being marketed.

As far as I can see there was no significant response to Lazarsfeld's paper. We were, I suggest, too enraptured with our successes. In a paper that Eric Trist and I published in 1964 we sought to align Lazarsfeld's observation with several others we had made in the course of studying such diverse markets as those offered by Unilever, National Farmers' Union (U.K.) and Bristol-Siddelev Aero-engines. The inference we drew from this set of observations, including Lazarsfeld's, was that western society was moving into a state of turbulence* with which our post-war economic planning would not be able to cope and in which major shifts in values would occur because they were one of the few (two?)

wave in which we can hope to reduce the 'relevant uncertainty' of turbulent social fields (the other major way we referred to was by the creation of new forms of coalitions between organizations having different but related purposes - but we will leave this suggestion till later in this paper).

With the upsurge of the 'counter-culture' and the liberation movements, 1966-8, our hubris started to evaporate. We found our assumptions of continued and relatively uninterrupted growth of the mass markets being challenged on a wide front by the very people on whom we had counted - the middle class youth. The new messiahs were the Beatles, the Rolling Stones and, of course, Bob Dylan. However, these messiahs avidly absorbed the ideas propagated earlier by such people as Rachel Carson, Packard, Timothy Leary, Laine and Marcuse. (Emery 1977).

Students of marketing responded in at least two important ways.

One move was calculated to defend marketing studies from the charge of being simply servants of greedy oligopolies (remember that the universities and the sciences were also being charged with serving alien, militaristic ends). With his concept of Social Marketing Kotler pointed out (1969) that the knowledge gained from marketing studies was just as useful for the promotion of socially desirable ends e.g. conservation and keeping fit. Arndt was probably correct when he pointed out, much later (1980) that 'social marketing' had become 'a flag of convenience' for private enterprise sailing into the traditional preserves of public authorities e.g. health and education. However, at the time I think the debate about social marketing constituted a genuine and relevant effort to draw attention to macro-marketing issues.

The second move was to resume Wroe Alderson's search for a general theory of marketing. In leading that move Bartels (1968) stressed that the necessary seven components of such a general theory must include:-

- " ... 6) the theory of social change and marketing evolution; and
- 7) the theory of the social control of marketing."

Despite the weaknesses in Bartels' efforts to advance beyond Alderson he clearly saw that marketing theory had to advance beyond a bastardization of applied micro-economics or applied behavioral science theories. The goal he set was a general theory that encompassed macro- and micro-marketing; a theory which would have to draw on such other disciplines as macro-economics, political science, anthropology and sociology.

The group of marketing students that emerged in the nineteen seventies to share their concerns about macro-marketing issues may be divided about the social marketing concept but there is little to indicate division about points 6 and 7 of Bartels program. The problem has been to advance beyond Wroe Alderson. Shelby Hunt, a most stringent critic of Bartels' theoretical efforts, has tried to clear the way by stripping Alderson's propositions from the functionalist paradigm. What he and his colleagues have done will enable us save some of Alderson's best insights but it does not constitute and advance toward a general theory. For that we are going to have to seek paradigms that are more fruitful than that of functionalism. Without such paradigms we will not have the scaffolding to reach greater heights that achieved by him.

Since Ernest Nagel's devastating criticism of functionalism as being essentially a design for a clock (Emery, 1969) there have been two new paradigms, and a third is just showing its face, in less than thirty years. Here I am describing face-values, the reality is that we are trying to grasp a single paradigm shift taking place in our generation. We are unable to grasp the new and reluctant to lift our back foot. The particular vacillations that seem to have taken us forward are :-

- 1) 'open systems' with Bertalanffy. This quickly degenerated to general systems thinking. Despite the recent fads of 'fuzzy systems', 'squishy systems', 'dissipative structures' and 'complex environments' the essentially closed system, Newtonian model, is retained.
- 2) 'system-environment' with Emery, Sommerhoff and Trist. Firmly beyond Bertalanffy but short on deducible consequences for micro-marketing.

The third and latest, positively oriented vacillation, is, to my mind the convergence in thinking of Labini, Aglietta and David Levine :-

- 3) the definition of a non-Euclidean space-time envelop specific to market operations. Within this the market is defined as a self-constituting, self-sustaining process, but not more than semi-autonomous.

I think that it might help if we run through these paradigms and check them for their relevance to a deeper understanding of marketing, particularly macro-marketing.

The functionalism of Alderson.

Alderson's functionalism consisted, first, in identifying the necessary steps for marketing in a developed market with money exchange. These steps were sorting, transportation, storage, credit, display and promotion. Second, he arbitrarily selected sorting as the primary function. He proceeds to separate out searching as a mental no-cost analogue of sorting then concentrates on how the unrecoverable costs of physical sorting determine each point of the total exchange cycle (transvection). The consumer choice processes do not enter into the model ^{even} aspect as manifested in purchases (sales figures).

This physical-economic model keeps Alderson's theory respectably close to the main body of economic theory. The independent variable is the technological means of sorting, transport, storage, packaging, display, information handling, credit transfer. As these technologies evolve so markets are transformed. There is no doubt a substantial, and oft ignored, truth in this contention, and no doubt that the concept of sorting is a promising way of grasping the multiple effects of these technological change.

However, Alderson's theory is only about necessary conditions. These conditions are not sufficient to explain the existence of markets let alone their modus operandi. These conditions all exist in the supply service of the US Army (and the nation of the USSR) and yet, officially at least, there are no markets, only a lot of sorting.

Alderson's functionalism was rooted in the hard facts of physical functions; functions that could fairly easily be priced. Hence marketing could become an applied branch of economic theory.

A theory that did not consider the sufficient conditions for the behaviour of its subject matter was unlikely to attract much favour outside academia. Such was the fate of Alderson's theory.

The other side of Alderson's theoretical contribution was his stipulation that the transvection should be the unit of analysis for marketing theory, not the individual exchange in the series. This suggestion is independent of his sorting theory although it bears all the earmarks of having been suggested by the inter-dependence of the physical steps in sorting at various stages down the marketing channels. Thus Alderson held that the channel was a 'behaviour system' only when it required the existence and participation of all members. This is a fair description of an actual physical machine e.g. a car which ceases to act as an operating system when the distributor or the spark plugs are missing. This is not the sort of conceptual system that could serve as the unit of analysis for any theoretical construction, in any science. In Angyal's concept of a system it is possible to observe the operation of the system principle in both undermanned and over-manned systems not just those 'where everything has a place, and everything is in its place'.

Alderson's concept of transvection is also vitiated by his inability to identify any transvection system principle other than the normative one, that is so often held by farmers who are harking back to simple commodity exchange, namely, eliminate the middle-man. Against this normative principle he saw transvections as being determined by the sum of independent exchanges at each stage. Even a rule for summation of these events would not constitute such a random series as a system and certainly not support the use

of Anderson's transvections as the basic unit of analysis. His was a serial concept but not a serial-genetic one.

Alderson is certainly correct in stating that the notion of simple commodity exchange cannot serve as the unit of analysis. The appropriate unit will have to correspond to some version of expanded commodity exchange:-

(a) simple commodity exchange

$$C_1 \rightarrow M \rightarrow C_2$$

(b) expanded commodity exchange

$$\dots M \rightarrow C_1 \rightarrow M^1 \rightarrow C_2 \dots$$

In expanded commodity exchange it is 'only the bottom line that counts', not the quantities of C_1 sold nor the quality and quantity of C_2 bought. In expanded commodity exchange there is no room for Alderson's normative principle that transvection is optimized by reducing its total cost to a minimum. Quite the contrary. The system principle governing expanded commodity exchange is expansion itself. Maximization of 'value added' at every possible stage of a transvection is the rule, not a transgression as Alderson saw it.*

The so-called 'marketing concept' reflects, in a very crude fashion, the emergence of expanded commodity exchange. Alderson appears to have been betwixt and between the honesty and verities of simple commodity exchange and expanded commodity exchange.

Advanced functionalism - the emergence of consumer psychology.

We have noted that Alderson's theory was open to and subject to the vagaries and indeterminacy of technological changes in the marketing channels. At the same time as Alderson was theorizing Ernst Dichter was dramatically demonstrating that purchase behaviours (and hence sales figures) do not simply reflect the relativities of human need satisficers that were inherent in commodities. The reified concept of a commodity as being inherently a

* From the consumer's viewpoint the principle is that of parting with money today so as to have more money to part with tomorrow (progressive affluence in a consumer society).

need-satisficer was a reasonable concept in simple commodity exchange (and served well in the 'thought experiments' of economists who wished to understand how the markets functioned to allow a grain grower to exchange his surplus for cloth). With nothing more to go by but his appreciation of psycho-analysis Ernst Dichter was able to demonstrate that the mass production markets of a Tveed world were not at all like this. He demonstrated that Alderson's theory was open, and hence indeterminate, with respect also to purchasing behaviour. The vision of marketing as a branch of applied economics receded even further.

Dichter's dramatic demonstrations were professionally disturbing. His intuitively creative mode was not the sort of thing that could be taught in university courses nor the sort of intellectual approach that would be accepted in a university.

Marketing theorists accepted Dichter's main point but sought for an academically respectable source of knowledge of consumer behaviour. Note, that in this move a gap was emerging between consumer behaviour and purchasing behaviour. The gap between consumer need and effective economic demand was quietly disposed of. This was not entirely unrealistic for the times. Credit facilities and unemployment payments bridged the gap in ways that had never existed before.

In turning to academic psychology, and to a lesser extent sociology, the marketing theorists turned to those theories that were best entrenched, academically. Not unnaturally they turned up with the new functionalism, based on universal human needs.

The assumptions of this new functionalism have been spelt out by Arndt (1978):-

- 1) that the potential consumer knows and can evaluate his own needs,
- 2) that he can communicate his needs to a producer,
- 3) that the producer can translate these needs into a product that satisfies them.

Where these conditions are met the market mechanism determines the relative utility of the product and its price and quantity levels.

As Arndt is quick to point out this is more of an ideology than a theory. As a theory of marketing this 'new functionalism' displays two undesirable features:

- (a) by specifying individual needs as a determining factor it makes it impossible to have a scientific theory of marketing,
- (b) by invoking the concept of utility it cuts the tie between the facts of consumer psychology and marketing theory:

The very concept of utility defies all attempt at exact definition: now it is the particular individual with his special wishes and inclinations, now it is some common, generic structure of man, with reference to which utility is defined and measured. The first case leaves unsolved precisely the decisive problem, the possibility of exact scientific knowledge; for a science of nature is no more constructed from individual feelings and tendencies than from individual sensations, and is rather directed on the exclusion of all purely "anthropomorphic" elements from its system of the world. In the second case, a common psycho-physical subject is assumed having a permanent organisation, which develops under conditions themselves possessing effective laws; thus the whole concept of being, which should be deduced is in fact presupposed. There is "utility" only in a world, in which everything does not issue arbitrarily from everything, but where certain consequences are connected with certain presuppositions. The standpoint of utility is only intelligible and applicable inside being and a definite order of process.

These criticisms are sufficient to point to what is needed if a scientific theory of marketing is to arise. Such a theory would need to indicate how the transvections of expanded commodity exchange themselves shape the kind of consumers and consumption activity that conforms to the system principle of continual expansion. Or, to again put it the other way, how do we create a consumer who thinks that by spending today (not save) he will have more to spend tomorrow. To put the question is to spot the link. Having more to spend tomorrow is a function of increased earnings. Therefore consumption today would have to be seen as having some link, however tenuous or unreal, to increasing one's earnings before tomorrow or next year or whatever the

time perspective for repeat purchase. Thus expenditure on a cruise holiday may be seen as a necessary 'recharging of the batteries' for another year of grind; being seen at the Opera may be a part of the image one needs as an architect.

Markets and their environment of work and reproduction.

What is called for is 'a sociology of consumption' (Nicosia, 1978; Schary, 1971, on consumption and time use).

Aglietta (1979) has presented us with an example of one such sociology; "the mode of consumption of Fordism".

David Levine's (1979) work is convergent on Aglietta's in stressing the social determination of the needs that enter the market place: needs exist only "within the system of needy individuals, and the recognition of individual need as such by other needy individuals." (p.62). Both, in one way or another, touch on the crucial feature of mass production of consumer goods. The savings of mass production can only be passed onto customers (and converted into profits) if consumers are generally prepared to shop for their 'second best' choices. Providing for everyone's first choice would fractionate the market too much and require ~~by~~-spoken craft production or batch production.

If the sociology of consumption is to be spelt out further we need a social psychology that enables us to trace out how conditions of group living manifest themselves in individual consumer needs and how these in turn re-constitute themselves as group norms of consumption.

It is implicit in the ABCX model derived from Asch that the BX or CX relations are not determined in isolation. X_i and B's need for X_i take on a character that is determined ^{by} the other aspects of the system e.g. the relation between A and B and A and X. The difficulty people can experience with this notion

is well illustrated in our tendency to think that property rights express a unique relation of the form A - X whereas it expresses an ABX relation i.e. A has privileges of access (use) to X which are thereby denied (excluded) to some others, B. If there was no-one else to be denied or excluded the notion of property would be senseless. On the other hand, once property is seen as an ABX relation the notion of complete exclusivity becomes dubious.

The AX model of human needs has been so dominant that the ABX theory needs the unambiguous underpinnings of Greco's theory of 'Group Life'. Briefly stated this is that, however odd some emerging consumer needs might appear they cannot be dismissed as a withdrawal from group life and from social determination of those needs. If an explanation is to be found for such a departure from group norms of consumption then it will need to be sought for in conflicts in the phases of group life.

TV and the system - environment linkages.

No attempt to understand the era of "the marketing concept" (Aglietta's 'Fordism') could be complete without consideration of television. It appears to have contributed greatly to the 'socialization of consumption' and the willingness to accept the 'second bests' demanded by mass production.

In a market where TV is the dominant communication channel the product has to be designed for TV appeal:-

- a) a simple u.s.p.
- b) packaging / design for catching the eye.
- c) appropriate affect loading (pox) i.e. pLo, oLx or oUx $\therefore p \rightarrow Ux$.
or pLy, yUx $\therefore p \rightarrow Ux \rightarrow y$.

TV advertising is used to saturate the market; if the product has low repeat purchase a new model is launched. The new model must also pass the TV test with a new and simple u.s.p. This new usp must require minimal change in the mass production lines and channels.

It could be argued that the usp is based on product features that uniquely serve some buyers' needs. If this were so then we could be back to a functional theory of marketing based on consumers' biological needs.

The u.s.p. rarely arises from such considerations. Typically a new product is being positioned into a market already defined for the consumer by existing products with their own TV images. It's u.s.p. must mark it out from these existing products; it is not necessary that the new product more closely approximate some ideal need-serving product.

Open systems, dissipative structures and complex environments.

With his concept of 'open systems, Bertalanffy introduced a paradigm that went beyond functionalism. Its development as General Systems Theory was a regression to closed system thinking that offered little to students of marketing. However, the more recent work of Prigogine and May appears to have recaptured Bertalanffy's original idea and attracted the attention of marketing theorists.

In this note I wish to examine whether this interest is justified beyond the natural curiosity that something happening in distant fields might be of interest.

My starting point is the position I first outlined in 1962. Namely that:-

"a comprehensive understanding of organizational behaviour requires some general knowledge of each member of the following set, where L indicates some potentially lawful connexion, and the suffix 1 refers to the organization and the suffix 2 to the environment :

$$\begin{array}{cc} L_{11}, & L_{12} \\ L_{21}, & L_{22} . \end{array}$$

L_{11} here refers to processes within the organization - the area of internal interdependencies : L_{12} and L_{21} to exchanges between the organization and its environment - the area of transactional interdependencies, from either direction ; and L_{22} to processes through which parts of the environment become related to each other (ie it's causal texture), the area of interdependencies that belong within the environment itself. (Emery 1969)

The critical implication of this is that the adaptiveness, and hence the viability, of an organization cannot be specified without some characterization of its environment (its L_{22}).

There are apparent exceptions to this rule.

If the environmental inflows to the organization (the L_{21} 's) are random over the period of time that concerns us, regardless of organizational outputs (L_{12} 's) then we can treat the organization as if only the L_{11} 's matter. This state of affairs defines a closed system. Theoretically this is a special case of 'open system theory'.

. In social organizations statutory bodies and public utilities are a case in point - except that it is their legislative egg-shell that does the adapting, to provide insulation from the environment. If the environmental inputs randomly fluctuate about a constant value, even a constantly but regularly changing value, regardless of organizational outputs, then we can treat the system as a "Bertalanffy ^{steady state} system". Evidence of adaptiveness would rest in the correlation of organizational outputs and the environmental inputs (Bertalanffy's 'transport equation').

In this second case the postulation of 'constants' implies some ordering in the environment ,the L_{22} , that requires characterization. If that constancy is taken as a given then any extrapolation of the organization's future viability is a gamble on the future environment being an essentially unchanged continuation of the past. In this case one can refuse to follow the rule enunciated above but only by restricting understanding of an organization to understanding what has brought it to where it is. Beyond that is guesswork. Despite the logic of the matter, organizations that have a graph proving long-term unwavering success in some particular will regard this as proof of their capabilities (ie a product of the L_{11}) and disregard re-orderings taking place in the environment, the L_{22} .

Prigogine and Dissipative Structures.

Prigogine's claim to fame ,and to his Nobel Prize, is that he has shown how order may arise out of disorder.

Boltzman had already demonstrated mathematically that in non-zero temperature states some molecules will be kept by the others in a higher state of order. Prigogine and his colleagues identified degrees of ordering in complex chemical and physical systems that could not be explained by Boltzman's Principle nor any other derivation from the Second Law of Thermodynamics. They identified some such cases with scientific rigour. They explain how these cases might arise from extreme random fluctuations in environmental inputs.

Two levels of ordering that depart from the closed system dynamics covered by the Second Law of Thermo-dynamics have been identified:-

a) "non-equilibrium stationary states" (steady state systems). Prigogine gives examples of crystals and demonstrates how they can still be described by Boltzman's Ordering Principle i.e. by classical thermodynamic theory. He is not clear, however, about the conditions under which such states emerge.

b) a relatively higher level of ordering has been observed in complex chemical reaction-diffusion processes. (This had already been well established by Rashevsky, 1940). Prigogine labels these as "dissipative structures". These structures are open to their environments in that they import, and export, energy and materials; instead of inexorably slipping back to the classical 'equilibrium' state of maximum entropy, as described in Boltzman's law, they often 'dissipate entropy' and move to higher levels of order with associated gains in the 'free energy' (potential energy) available to move to yet higher orders; and these dissipative structures frequently have the ability to reproduce.

Prigogine achieved several things. First, he forced attention to physico-chemical phenomena that cannot be reduced to classical thermodynamics. Second, he devised his "non-linear thermodynamics" to show that the traditional language of thermodynamics could be stretched to describe these phenomena. The masters of this language could assume that they would be the masters of these newly recognized phenomena - the now open systems theorists. (That would indeed be worth a Nobel).

There is a hitch. Committed to an explanation that is but an extension of classical thermodynamics Prigogine is also committed to finding a principle which will explain how chaos can generate order. His finding is the principle of order through (large) fluctuations: up to a certain magnitude of fluctuations these systems behave as predicted by classical thermodynamics and then, at a critical point,

there is a bi-furcation and some of the systems take the path of 'dissipative structures'. This retains the mathematical language of thermodynamics, it retains Boltzman's constant as a measure of relative order and it retains the root-metaphor of classical physics. It remains no more than a description of carefully observed events. At no point is Prigogine able to explain why these "above critical level" fluctuations occur, why some are critical whilst other much larger fluctuations in environmental parameters have no observable effects: nor does he ever indicate the conditions where bi-furcation is probable.

This is an extension of the empire of physics that is without substance.

The attraction of Prigogine's theoretical invention to marketing students such as David Monieson and futurists such as Erich Jantsch and Marilyn Ferguson appears to be that it gives absolution to the heretics who have had to think in open system terms about biological and social systems - provided, of course, that they now think in the modern day equivalent of Latin e.g. Boltzman constants, Lyapunov functions and Belousov-Zhavotinsky waves.

The matter does not rest here. Prigogine has not been satisfied with describing the border phenomena of physics and chemistry (what he has been apt to call 'chemical physics') in variants of the traditional language of thermodynamics. He has sought to characterize, in the same language, the behaviour of primitive living systems, populations and social institutions.

In these 'raids beyond the border' he has indulged in a logical slide that betrays the weakness of his base position. Right at the point of discussing the most elementary forms of living matter, Eigen's work on the evolution of biological macromolecules, he postulates

that the pre-existence of autocatalysts and crosscatalysts are an essential pre-condition for the emergence of living 'dissipative structures'. That is, 'large random fluctuations' are no longer a sufficient condition. At this point he has, apparently unwittingly, deserted the classical root-metaphor of order as a temporary, deviant creation of chaos and postulated order as a pre-requisite for the emergence of greater order. At this point he also runs short of mathematical theorems and evidence from 'non-linear thermodynamics'.

Prigogine has obviously brought comfort to his fellow physicists but he has yet to produce anything that would help us to explain the behaviour of open systems. His greatest achievement, yet to come, is that he may force the physicists to pay more attention to what one of Einstein's pupils has been saying - disorder is to be understood as a function of different levels of order (Bohm, 1980). Thus, Brownian movement constitutes a very high level of order (Julesz has used the same concept of order in rigorously defining figure-ground perception).

It is a conceit for Prigogine to write as if he were contributing to our knowledge of 'self-organising systems'.

The only measure of order that Prigogine knows of, as a professional scientist, is deviation from maximum entropy for a given temperature level. (Boltzmann's law). This measure can, by its very nature, not give us the slightest aid in identifying the emergent levels created by 'dissipative structures'. It tells us only whether or not they are back-sliding.

I have stated earlier that there is no possible way that biological evolution could have emerged from a Type I, ^{randomized} environment. By introducing his catalysts Prigogine has re-affirmed the point that we can only understand a new order or predict an emergent order if we understand how it is produced by a preceding order.

It is my considered judgment that :-

"For all its apparent novelty the paradigm of 'dissipative structures' has a conservative, and even archaic, quality to it. In some way it seems to be an attempt to encompass biology within the confines of 19th century thermodynamics, appropriately modified and extended. It strikes me as a physicist's endeavour to make himself comfortable in the company of developing and evolving systems, which behave so differently from the systems from which thermodynamics itself originally sprang....the entire development treats the closed isolated system as somehow primary; open systems are only closed systems which are 'constrained'. A more radical viewpoint would be to treat open systems as primary; to forget about closed systems (i.e. Boltzmann-Gibbs thermodynamics) altogether, or treat them as open systems that are constrained."
 (Rosen, 1980 *(my stress)*).

Complex Environments .

The complexity of modern segmented mass markets is quite horrifying for the student of marketing. Any scientific advance that appears to disclose the lawful properties of increasing complexity would have to fascinate such a student.

In association with the systems theorist Ashby, May has sought to demonstrate that some of the unusual behaviours of animal populations (in fact, populations of any living species) are a relatively simple function of increasing complexity.

Drawing on the same root-metaphor as Prigogine he has also sought to provide the model for the behaviour of living systems.

His argument is that as any system grows to include more parts and/or the parts become more interdependent then that system must

become less stable. His assumption is that the parts retain their own characteristics, they are randomly selected and they randomly relate as members of the system. If one further assumption is made, namely that there is only an even number of competing species eg 2,4,6,8 ..., then computer simulations of this mathematical model reveal points at which gross instabilities occur.

We have been faced with gross discontinuities in significant parts of our social life e.g. birth rates and GNP. Why should May's mathematical modelling be so attractive to social scientists ? The answer would have to be that it provides a description of how discontinuities could be explained without departing too far from the traditional language of physics. When it is a matter of fact that elements act as parts of systems only by reason of some of their characteristics, that the selection of elements to become parts is far from random and that, as parts, their interrelationship is pre-determined by the pre-existing population of elements serving as parts, then the sacrifice of reality involved in accepting May's model is not justified just for the benefit of a rigorous mathematical language. Even May's interesting computer results showing a relation between complexity and stability cannot safely be used as an analogy. Complexity defined in his way as sheer numbers of different elements has little to do with the orders, levels and hierarchical arrangements that often enable the more complex ecologies to be the more stable and the simpler ones, as in mono-crop agriculture, to be most unstable.

Self-constituting, self-sustaining Markets.

In the preceding pages I have suggested that a deeper understanding of macro-marketing matters cannot be achieved by adopting the paradigms of functionalism, General Systems Theory, dissipative structures or Mav's mathematical modelling of complex environments. All of these would-be paradigms assume that the closed system model of 19th century thermodynamics is primary and that marketing theory, if it is to be a science, must shed all of those aspects that do not fit that particular Procrustean bed.

That is, I suggest, a price that we cannot afford to pay. If we proceed with that transaction we will be academic eunuchs.

This is not our only course of action. The Emery-Trist theory of the evolution of social environments did not compromise about the primary significance of open systems. That particular paradigm drew heavily on the history of the evolution of markets. The economic evidence for the transformation from Type II to Type III environments was largely based on Myron Watkins, Robert A Brady and contemporaries. The evidence for the emerging transition from the Type III, disturbed reactive, environment to the Type IV, turbulent environment was based on our own work (at the Tavistock Institute of Human Relations) with Unilever, Bristol Siddeley Aero-Jet Engines and the National Farmers Union (UK) (Emery and Trist, 1964)

Since that formulation much has happened to more clearly specify what it is that macro-marketing must confront. The early descriptive work done by Watkins et al on the Type III environment of oligopolies has been superseded by the theoretical and empirical work of Silvio Labini, Eichner and Chandler. We now know a lot more about the contradictions in Type II markets that create Type III oligopolistic markets. We have a better understanding of how oligopolies make their contribution to the emergence of a turbulent state. (Emery and Trist, 1964; Eichner) What we have now, thanks to Adlietta, Levine and Riesman, is a deeper understanding of how markets develop their own dynamic.

The dynamic development of markets and the possibility of directly correlating such development with economic, social and cultural developments is, I think, what macro-marketing is about.

Part II of this paper is about these correlated developments.

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Systems Thinking and Macro-marketing: Part II.

In noting above the shortcomings of 'advanced functionalism' I also started to formulate some of the propositions needed to characterize consumer markets as 'fields of directive correlations' (Sommerhoff, Emery) In taking the ABX model as the unit of analysis I am rejecting the notion that consumer markets can be characterized as a summation of $(AX + BX + \dots) + (AY + BY + \dots)$. I rejected, as a hopeless task, any attempt to find a common generic property in the AX's, BX's etc that was also a measurable property. My alternative starts from the more realistic assumption that A's relation to X will be a function of how A is trying to relate to B and C, how B and C relate to each other and to A and X. Thus if B admires X then A might be inclined to purchase, or re-purchase X, whereas the opposite might be the case if C admires X. The products or services represented by XY etc constitute an environment to which the social system of needy individuals, ABC etc, are open. Starting from Heider's original work on ABCX models Harary and Cartwright have suggested how the mathematical theory of graphs can be used to represent and provide measures of such extended system-environment relations. (Emery, 1981) We cannot expect graph theory to yield the metrical measures associated with the natural sciences but we can hope that it will help us reveal the significant serial-genetic properties of markets.

Note, however, that I have only dealt with matters that Adam Smith had already observed about consumer markets (Riesman) and that David Levine has now got himself into by probing for the deepest roots of economic theory: that is, with matters of great generality.

Since the emergence of industrial capitalism there has been

(a) profound differentiation of markets, e.g. markets for labour, for capital, for consumer goods and for producer goods.

(b) the conversion of some A's, B's and C's into massive business corporations which, whilst they are recognized as legal personalities, can hardly be viewed as such in the market places.

(c) the emergence of governments as the major single presence in modern market economies by reason of the proprietary rights they have assumed for providing the infra-structure goods and services (including defence) required by even modern capitalist societies.

These three developments proceeded historically in the order that is given here. Taking them into account might, by a process of successive approximation, bring us closer to how the general processes of marketing are realized in the turbulent markets of today.

The differentiation of markets is inseparable from the very emergence of industrial capitalism. Nevertheless, despite Leontieff's methodological breakthrough with input-output analyses of national economies, it is difficult to find a heuristic model of how the parts relate. In diagrams 1a and 1b I have tried to construct a systems model of the critical relations between the major parts of a national market. This is an amalgamation of the models proposed by Aglietta and Forrester. It differs only in that it tries to order the inter-dependencies over time. Diagram 1a only depicts the flows of labour and goods and services. Diagram 1b adds on the flow of money as produced values are

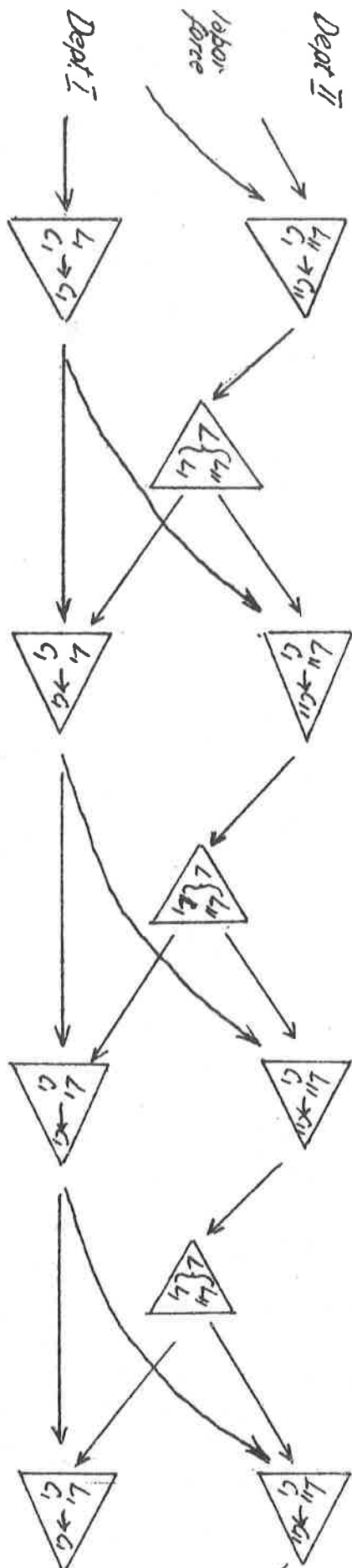
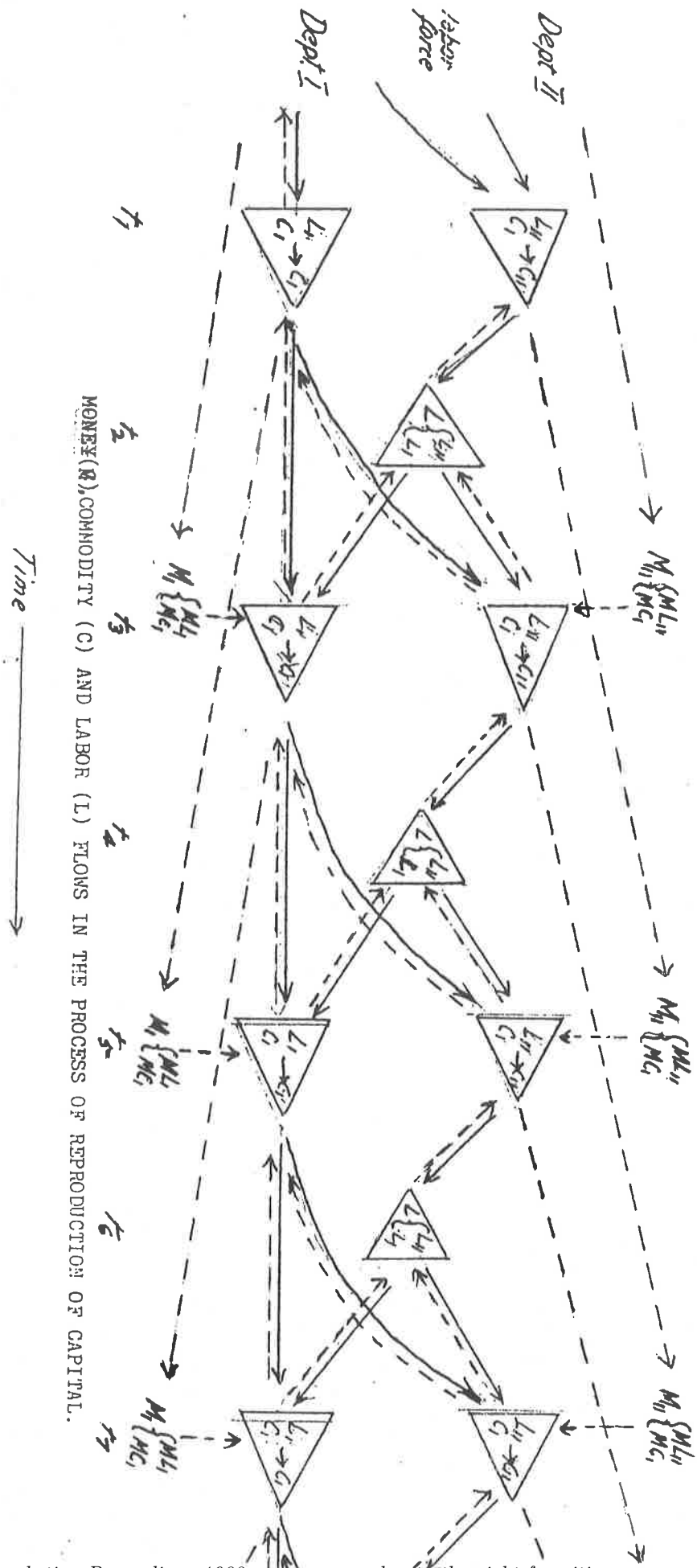


Diagram 1a.

COMMODITY (C) AND LABOR (L) FLOWS IN THE PROCESS OF REPRODUCTION OF CAPITAL.

Time \longrightarrow



MONEY (M), COMMODITY (C) AND LABOR (L) FLOWS IN THE PROCESS OF REPRODUCTION OF CAPITAL.

Time \rightarrow

Diagram 16.

realized in market exchanges and flow back as wages and salaries and capital.

It has some value I think, in that it shows that decisions for reinvestment, particularly for the production of producer goods, can only find a factual basis in the clearance (or non-clearance) in the market of products produced two or three cycles preceding the current investment cycle. Presumably they will be just that little bit slower in discovering how their competitors fared in trying to clear their share of the old markets. If we look more closely at the flows, there appears a number of implications.

Diagram 1a identifies two commodity markets, that for consumer goods and that for producer goods. Given that there is no relevant source of consumer goods other than that produced by this reproductive process then a social consumption norm must emerge to integrate consumer demands and the production of Dept II. However, the decisions governing what will be produced by Dept II cannot be decided solely by consumer demands. Technical developments in Dept I determine where reductions may be made in the value of the labour power required by Dept II. This generates the following tension:

reduction of labour costs in production vs 'clearing the market.'

Provided this total system generates growth in investment and creation of new jobs this tension is held in abeyance. Diagram 1b adds the further dimension of money flows.

The forward flow of money to form the capital for Depts I and II (M_i and M_{ii}) depends on the "backward" flow of money in the form of (a) wages and salaries and thence into consumer dollars and (b) investment in production goods.

Given this dependency the capital for any productive cycle (t_1 , t_3 , T_5 in the diagrams) must derive from clearing the market of commodities produced at least two productive cycles earlier. Thus for the productive cycle of consumer goods at

t5, in the diagram, the capital could not come from sale of the products of the cycle at t3 for the simple reason that it is the capital at cycle t5 that has to be first released if those t3 products are to be purchased. The capital at t5 for producer goods production must arise from the sale of production at t1, or earlier production cycles. The 'backward' flow of money is, of course, illusory in suggesting that money can realistically flow back into a past that is non-existent. The reality is that capital lies dormant (a potentially dead) in stocks and inventories until they are valorized or 'realized', by a later cycle of production investment and consumer expenditure.

One feature of this extended back-reference period is that the investment decisions at t5 cannot be guided by the success or failure in clearing the market at t3. If the clearance of the market at t1 has been the first failure in a long series of successes the temptation will be to see it as simply an erratic business recession. Plunging heavily into investment for the productive cycle at t5 will improve the chances of clearing the market of t3 production and hence rectify the situation. To get cold feet and back-off t5 investment plans would endanger clearance of t3 production and, like a self-fulfilling prophecy, produce a second crisis in realization. However, this logic produces bankruptcy if the market failure at t1 is not accidental.

The feedback of money flows is even less helpful to Dept I, producer goods. We have already shown how a failure to clear the consumer market at t1-t2 would be obvious in Dept. II at t5. The reaction of Dept II to the market behaviour of Dept I products at t1 does not appear till the Dept II decisions at t7. To aggravate the situation we have the fact that a significant part of the production of Dept I is sold within Dept I. Steel makers talk to iron ore producers, aluminium producers talk to alumina producers and the power utilities. In the process any messages arising from the talks between Dept II and the consumers are muted, attenuated. With such differences in back-reference periods Depts I and II would have to gradually distance themselves to the point where Dept I is grossly over-

capitalized.

When Dept I is over capitalized it must engage in even fiercer competition to produce labor saving equipment and hence further enhance the difficulty of realizing the already produced products of Dept I,

You might react to this model by saying that it is so complex that rational investment decisions could not be made. You might further add that many managers do make rational decisions and therefore ipso facto the model has overlooked some important simplifying features of the real world.

Rothermel from A.D.Little has recently (March 1982) reported a remarkable forecasting model whose predictions held true for the following twelve years of ups and downs in the plastics industry. At the heart of this remarkable achievement is the fact that:

"...the model does not assume that the competition behaves in a rational manner; it would not work if it did. In fact it forecasts correctly only when competitors are assumed to behave in simple Pavlovian fashion, responding to outside stimuli without sufficient thought as to the consequences (p139) ...We have learnt that a competitor will blunder ahead. Each will react as if it were the only company in the market. (p145" (Rothermel)

"Simultaneous decisions by competitors to invest in similar amounts of new capacity may not be known to each other until months later. At that point, it may be too late to alter psychological and business commitments. Competitors may then become even more aggressive in the pursuit of advance contracts." (Rothermel, p145)

It is fortunate for us that Forrester's MIT model of modern industrial economics was based on observed practices in business decision making and not on the economists' theories of rational decision making. The model thus designed, showed the cumulative effects of misjudgement that one would expect from Diagram I, e.g. the short term business recession as Depts I and II of industry get out of step, the 17-18 year cycle that Kaldor associated with the building construction industry (physical infra-structure renewal) and the 40-50 year cycle that might be associated with the turnover of generations in the labor force.

For us in macro-marketing theory, the most important implication may be that the parts

of the national market are interdependent but marching to the beat of different drums.

This means that whether we like it or not we cannot trace the probable effect of changes in the manner of the clock maker or even by postulating simple feed-back mechanisms.

The relations of the parts are so complex over time that computer simulation such as Forrester's national economy model is probably the best we can do at the moment.

Even then we have the difficulty that some of the parts are evolving and changing **their** relation to the systems with consequences we do not understand. Thus, as Gershuny has pointed out, a significant part of consumer purchases is now, thanks to extended credit, directed towards what are in effect, producer goods. At the same time parts of the capital goods industry are moving even further away from the consumer market with such multi-billion dollar, long term, high technology projects as the shale and tar sands projects and Arctic oil. Simulations such as Forrester's and Rothermel's can help by revealing how markets behave in such complex systems. At the same time these computer models become more fruitful to the extent that they can draw on established theory.

The most promising body of theory is that which has emerged to explain the behavior and growth of the mega-corporations. Here at least we have some theory that is consonant with the kinds of non-rational decision making that Forrester and Rothermel felt they had to build into their models. In markets that have become oligopolistic the theory explains Rothermel's observation that whilst competitive actions of price, promotion and product can ((sometimes)) have dramatic short term effects on market share, it is the investment decisions that in the longer term are critical for pricing behavior and market share.

However, Eichner himself recognizes that there is a need to go beyond oligopoly theory to a 'theory of purposeful systems' (Ackoff and Emery, 1972) that would encompass the evolving relations between all substantive parts of the economy and relate the

economy to other major societal systems. (1979)

The theory of oligopolies does not cover such areas as the trading of raw materials and primary foodstuffs. In those areas markets tend to be traditional with flexible pricing to clear any given state of the market. Nor does the theory cover the growing area of government purchasing and provision (now estimated to be greater than twenty percent of the US GNP)

Despite these limits the theory is particularly relevant to macro-marketing thinking about the great range of 'finished goods' Chandler has amply documented the rise and spread of oligopolies. He has also noted that the mark-up of prices is then linked directly to planned investment expenditure and movements in normal production costs. As he graphically puts it Adam Smith's 'invisible hand' is banished from these markets and replaced by The Visible Hand of purposeful corporate decisions to invest, to write-off or mothball productive capacity. The corporations have considerable freedom in these matters as they can generate internally most of the investment funds they need (Fichner, 1976, has estimated that between 75% and 90% of gross fixed capital expenditures in US manufacturing industry is financed from retained profit. This does not imply that competition has also been banished. The process of competition now takes place through investment and capital accumulation. As shown by Chandler's case study of the US sugar industry and Rothermel's case study of the US plastics industry the competition for market shares can be quite fierce and lead to unplanned fluctuation from under-capacity to over-capacity in an industry. The so-called equilibrium state is just a fictitious point through which an industry passes on its way from one extreme to another.

The purposefulness of the individual corporations does not lead to purposeful development in an industry, for reasons given by Rothermel (quoted above)

What we actually see should lead us to agree with Lindblom:

"In listing corporate discretion as a major possible limit on the use of market systems. In an age of technologically complex giant enterprises, the range of discretion open to corporate management may have become inconsistent with the claims conventionally made for the usefulness of market systems."

FACTORS INHIBITING THE DEVELOPMENT OF
COMPARATIVE MARKETING

by

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FACTORS INHIBITING THE DEVELOPMENT OF
COMPARATIVE MARKETING

Recently two very thoughtful and comprehensive reviews of the field of comparative marketing have appeared (3,60). Other writers too have made efforts to synthesize the field (4,8,15,19,22,25,34,46,47,49,52). Nevertheless, it is my position that the topic today lacks conceptual or empirical integrity. After surveying a vast body of literature that touches directly or indirectly on the topic, it seems that the discipline has no discipline; we wander in the land of Babel, each writer defining the parameters of the field or appropriate tools of analysis in his or her own most convenient way. As Boddewyn notes (60), comparative marketing literature can be classified in many ways: direct and explicit comparisons of two or more marketing systems (2,21,24,31,33,35,52); implicit comparisons to a domestic market system (6,10,27,36,43; and the "Marketing in"series of the 1960's); comparisons of market structures, institutions, actors, or technologies (2,17,21,28,29,30,41,56); longitudinal, cross-sectional, and/or historical comparisons (20,22,37,40,59); methodologies for cross-cultural study (4,8,9,45,61); studies of the relation of market systems to their environments (2,16,18,19,23,32,46,24); and, comparisons of marketing environments themselves (7,14,28,53), to name a few. After initial progress in conceptualizing the field, it is as if all of a sudden we were stricken with an inability to hear, understand, or find useful the

work of our colleagues. How many 'comparative' studies, for example, have repeatedly but independently concluded that supermarkets will not work in developing countries? (a sampling: 11, 23, 27, 28, 31, 33, 35, 50).

My purpose here will be to identify the factors that I believe inhibit growth of the discipline. My premise is that lack of disciplined thought in comparative marketing fosters immaturity just as it does in human development. Second, and more important, I want to provoke discussion that will lead to an organized agenda for future conceptual and empirical thinking in the field.

Inhibitors to Growth of the Discipline

Throughout the efforts to develop and promote the field of macromarketing, in the Macromarketing Seminars and in contributions of other writers, several issues have been prominent: What are the parameters of the field? What distinguishes macromarketing from other areas of marketing? How should it be formally defined? What are the appropriate tools of analysis for macromarketing? What are the respective roles of empirical and conceptual approaches to macromarketing? What is the purpose of the study of macromarketing? These issues as well as others have not been totally resolved, but macromarketing as a discipline has benefitted from focussed efforts to answer such questions. The Macromarketing Seminars have constituted a forum for inquiry into these topics; the Journal of Macromarketing provides a formal mechanism for disseminating these and other writers' contributions to the

growing field. In spite of its growing pains, macromarketing now has an agreed-upon definition, specified parameters and focus, suggested or exemplary methodologies, and it is recognized as a distinct field of marketing with both conceptual and empirical dimensions. In sum, it has discipline and its contributors work in concert to promote its development. Comparative marketing has not been as lucky.

Lack of a Formal Definition

What is comparative marketing? Much can be said for a formal definition of a discipline. It is an invitation to scholars to think and exchange within a prescribed area. It provides identity and differentiates one field from related ones. It actually promotes development of the field rather than circumscribing it as might be presumed. Kotler and Levy's "Broadening the Concept of Marketing" stimulated theoretical work (e.g. exchange theory), empirical studies (e.g. applications of marketing technologies to non-profit organizations), discussion about the parameters of the field (e.g. Luck, Tucker, Enis, Arndt), and even more definitions of marketing. In effect, a simple re-definition of marketing in 1969 created much of the dynamism within the field for the last 13 years.

In the 1960's, comparative marketing too was stimulated by definitional efforts. Boddeyn's 1981 review repeats his 1969 definition: "Comparative marketing is about the systematic detection, identification, classification, measurement, and interpretation of similarities and differences among entire national systems or parts thereof." (9,60). Fisk defined it as "comparisons

of marketing goals, organizations, institutions, actors, roles, and/or productivity." (26) Bartels said comparative marketing was the study of the relationship of a market system to its environment in two or more settings (5). Also, of course, Reavis Cox believed comparative marketing to be the search for culture-specific and universal marketing phenomena (16). The latter was of interest because universals would be helpful in development of general marketing theory. In spite of these provocative statements of definition (not altogether in agreement), the impetus to re-fine and re-define the field of comparative marketing seems to have disappeared. None of the recent reviews of the discipline referred to earlier offer revised definitions; most offer none at all.

The absence of a definitional debate is particularly intriguing today, since the literature of the field has expanded substantially since the 1960's. However, without a unifying thread to set out clearly what is and is not comparative marketing, the new literature is atomistic and fails to generate a true 'body' of literature. It is time to investigate the intellectual heritage of the field, to use it as a basis for a new definition of comparative marketing, and to make it a stimulus for conceptual, empirical, and further definitional thinking.

Lack of Clarity of Purpose

For what purpose do we study comparative marketing? This issue seems to be a critical one behind the absence of a unified body of literature during the 1970's and early 1980's. The purpose which

apparently stimulated early work in the field was to build conceptual understanding of the general premises of marketing itself (5,26,40,46,52). If, as Cox suggested, we could identify what was universal and what was culturally specific about marketing situations, we would certainly have a conceptual framework for discussing concepts such as what are marketing institutions, who participates in marketing activities, what are the tasks of marketers, etc. Many authors who assumed this purpose of comparative marketing were interested in the general structure of markets and their relationship to economic development (26,41,44,46). In spite of this dialogue, 'general' theories of marketing today do not touch on the marketing-economic development relationship. Therefore, comparative marketing does not seem to have served this purpose well.

Another, distinct purpose of comparative marketing study has been "a better understanding of the important interactions that precipitate change within a domestic (usually U.S.) market system." While this is clearly related to a more general view of market processes, it is distinct because the concentration of these papers has been on system 'differences'. For example, Arndt, Cundiff, and Douglas' studies were excellent in identifying or eliminating environmental factors as determinants of specific market structures. Recent studies unfortunately repeat the essence of their conclusions ("supermarkets-don't-work-because-the-environment-is-different") without developing a broader theory of how the economic or cultural environment might influence general market structures and their development.

Contrast the above two purposes of comparative marketing study with the large number of analyses of different national market systems in terms of efficiency or effectiveness (6,12,24,31,37,41,43,47,48,50,51,54). These studies have led to judgements about whether particular market systems do their jobs well and why they do or do not succeed in meeting their goals. They are normative rather than descriptive and thus have been criticized for the cultural biases of their authors. Also implicit in this purpose of comparative marketing analysis is the question of what marketing's goals are and should be. It is of course difficult to compare marketing systems' efficiencies when they have differing goals (e.g. to achieve industrialization, to improve income distribution, or to deliver a higher standard of living, etc.). While an intriguing area of inquiry, no generalizations appear forthcoming as to how comparisons of efficiency or effectiveness can be made, given different system goals.

In the late 1970's a different variation of the 'efficiency measurement' purpose for comparative study appeared. These authors view comparative marketing to be useful as a basis for input into public policy (10,18,19,28,32,36,42,49). Judgements are presented in these papers as to what is needed to improve the effectiveness of a market system and recommendations are then proposed for policy-makers. Most, if not all, of these papers concentrate on food marketing; therefore, they are narrower in focus than some of the earlier conceptual papers in comparative marketing. The authors

do not necessarily consider the relevance of their recommendations for marketing of industrial products or their impact on the service sector. More frustrating to the student of comparative marketing perhaps, there are implicit assumptions in these studies about the importance of public policy in affecting the structure and effectiveness of market systems. Yet, these are not based on a conceptual model of how to intervene to "cause" certain types of market system development.

The marketing empiricists of the 1970's saw comparative marketing as an opportunity to replicate studies of marketing truisms of the United States (ex. 30,57). A related branch of comparative marketing literature is oriented toward identifying tools to use in comparisons of foreign and domestic marketing phenomena (ex. 45,61). Another objective for comparative study has been to serve the information needs of private businesses, typically multinational firms (13,22,58). Other authors have used comparative marketing to describe the parameters for managerial decision-making in different contexts (9,55,59).

I hope the case has been made: comparative marketing has served multiple purposes. As such, it seems inevitable that approaches to the topic have wide variation. While this may be productive for future development, what we need first is a core framework from which branches of the discipline may radiate.

Lack of Comparability

Table 1 illustrates what I believe to be a problem of comparability in comparative marketing studies. The table is structured

to show different approaches that might be taken in comparing marketing phenomena in two or more contexts. For example, retailers in one country might be compared to retailers in another country in terms of productivity, types of product assortments, etc. In this example, retailers for food products could be compared with retailers for services within one market system; but to compare these same institutions in two systems would destroy comparability of the study. Therefore, it seems important for researchers to specify what type of comparative marketing study they want to make in terms of each possible unit of analysis for comparisons listed in the table. In other words, the institution, type of product, market location, scope of inquiry, type of marketing process, essence and focus of the comparison must be specified. My conclusion from past studies is that too many types of comparisons are made simultaneously, destroying the comparability and thus integrity of such comparisons.

An example of this problem of comparability can be seen in food marketing studies. Most authors have focussed their inquiries on urban food retailing in developing countries (10,11,31,32,33, 35,36,37,42,43,48,50,51,54,56). However, many of these are simple, one country or one region descriptive studies where there is an implicit comparison to an advanced market institution (supermarkets) in developed countries (10,11,32,36,37,43,48,50,51,54,56). Very few papers have actually compared the same phenomena in multiple countries simultaneously (31,33,35,42); thus, in order to develop

generalizations about the characteristics of urban food retailing in developing countries, the student must go to multiple sources to draw his or her conclusions. What also complicates this process is that the literature is not focussed on similar marketing processes. For example, we can learn about the types of institutions involved in urban food retailing in Latin America from the Michigan State University series (31,48,50,51), but other studies may emphasize structural or behavioral dimensions of urban food retailing (19,23,24,28,32,40,42,54). Also, any implicit comparison of urban food retailing between developed and developing countries must acknowledge different goals and environments; this in turn affects the comparability of such comparisons.

Table 2 presents some of the generalizations that might be drawn from past food marketing studies. These generalizations do not identify specific institutions (specialty stores, supermarkets, etc.) because such titles have not been 'comparable' and thus do not describe the phenomena as well as structural and behavioral characteristics of the institutions. Recommendations for improving urban food marketing in developing countries also can be classified as structural, institutional, and/or behavioral. Structural recommendations include: provision of marketing infrastructure (roads, transportation systems, marketplaces, etc.); development of standardization and grading processes for products; government ownership of and/or participation in urban food retailing or food production and allocation. Policies which would improve the institutional framework in urban food retailing in developing countries center on either vertical (integration through ownership or contract) or horizontal (chain store form of organization) coordination;

retraining or education of retailers; and, introduction of innovative retail techniques (e.g. self-service). Behaviorists have suggested changing consumer and retailer behavior through education, and introduction or control of marketing strategies (e.g. price controls, store locations, licensing, product assortments, packaging, promotion media, etc.). All of this can be accomplished by either direct or indirect controls over retailing by the public sector (e.g. through ownership, monopoly, or price controls). In effect we have assumed that the public sector does have and should have a role in urban retail development. Nevertheless, we do not know what its impact might be on other sectors (retailing of packaged goods or commodities); nor do we directly address the issue of the public sector's role in food marketing without ideological biases.

Few of the food marketing studies or their public policy implications have led to real generalizations about how to affect structural, institutional, or behavioral change in market systems. Yet, how really useful is this literature if it does not lead in that direction? Slater's work was an important contribution here because it did model these relationships (24,49). However, we have yet to put his descriptive conclusions into a conceptual model of public and private roles in system development. What may be needed at this point is a change in the types of institutions (e.g. from retailing to production systems) or products (e.g. from food to industrial goods or services) or market locations (e.g. from urban to suburban or rural). There is truly an absence of these

studies in the comparative literature and our ability to build generalizations about how to cause market system change is likewise limited.

In contrast to the fuzzy comparability of urban food marketing studies, empiricists have specifically focussed on the issue of comparability (e.g. 45,57,61). Their major contribution has been in directing empirical, survey-type comparisons of market-related behaviors in two or more contexts (e.g. 30). Unfortunately, they do not serve as effective guides for comparisons of other market-related phenomena (e.g. structure, institutions, productivity, goals, environments, etc.). To summarize this section, comparative marketing studies often lack comparability because they compare too many marketing processes simultaneously. We must control the number of comparisons being made to have a true sense of similarities and differences in the variables of interest.

Agenda for Development of the Discipline

Comparative marketing is not conceptually or empirically bankrupt. It has, however, lacked discipline in terms of a definitional debate, clear sense of purpose for study, and comparability in comparative studies. To stimulate future development of the field, I propose a new formal definition of comparative marketing, a unifying statement of purpose for the study of comparative marketing, and rules for comparative studies of marketing phenomena. Last, I am suggesting several areas for

research that should integrate our current literature by filling-in gaps and by leading toward broader marketing generalizations.

A Definition of Comparative Marketing

"Comparative marketing is the analysis of similarities and differences in comparable but specific marketing-related phenomena from two or more environmental contexts."

This definition is designed to describe what the field of comparative marketing has become by acknowledging past literature. It is no longer sufficiently enlightening for an author to describe marketing phenomena; we must expect an analysis of why market systems are the way they are or inquiry into the factors that influence their development. Implicit comparisons also must now be made explicit and direct so that any of our cultural biases are on the table for analysis themselves. It is likely that a more rigorous requirement for direct comparisons will improve the quality and specificity of analyses. It may also serve to limit the number of simultaneous comparisons within a study.

According to this definition, comparative marketing does not have to be cross-national. It might include the study of market systems within two different regions or sectors of one national economy (e.g. industrial goods vs. service marketing) or it may include study of the same market system at different points in time (a historical or developmental focus). Market phenomena might include any of the units of analysis mentioned in Table 1

(e.g. retailing, urban markets, national market systems, marketing efficiency, etc.). The environmental context is defined as the scope of inquiry in Table 1. Similarities identified through comparative marketing analysis should form the basis for generalizations about marketing phenomena; differences are signs of environmental (sometimes cultural) influence on the nature of market systems. However, the emphasis of this definition is not in identifying similarities and differences but in analyzing why they occur.

Purpose of Comparative Marketing Study

The central purpose of comparative marketing study today should be to identify marketing universals. At this point in the development of the literature, culturally-specific phenomena have lost their value. It is time to build generalizations about the nature of market processes and to incorporate those into the larger field of marketing theory. Comparative study is one of the few branches of marketing inquiry that directly builds theory; some authors would even argue that the two fields are the same (e.g. 25). Cultural differences do help isolate universals, but we do not need to repeat, for example, 'why' supermarkets are not appropriate for food retailing in this or that developing country. A more fruitful area would be modelling of how behavioral variables interact with institutional and environmental ones to determine market structures.

Standards for Comparability in Comparative Studies

Comparative marketing studies should have a more limited focus than in the past. The goal is to improve clarity and integrity of comparisons that are made when discussing market phenomena. We should not pretend to compare the "market system" in one country to that in another unless we compare these systems for all different products and markets within each of the countries. Since this is almost an impossible task, we should limit the number of simultaneous comparisons.

A rule of measurement for comparability might be that a good comparative study should hold constant all units of comparison listed in Table 1 except one. So, for example, retailing could be compared to retailing in another nation only if we assure that the comparison is: for the same type of product; for markets in similar locations; for the same time horizon; the scope of inquiry is the same; similar aspects of the market process are the focus of comparison; and the comparison is explicit and direct. We could change any one of these variables of control (e.g. time horizon), but then we would have to control the context of institutions to be compared (retailing within only one country perhaps at different points of time). While this may seem a restrictive rule for designing comparative research, lack of comparability has not helped our search for universals. The

definition of comparative marketing, purpose of study, and measurement tools can now work in a concerted way to guide the field toward disciplined growth.

Agenda for Research in Comparative Marketing

Below are listed suggestions for future research in comparative marketing. They are neither well-elaborated nor comprehensive. I list them merely as examples of how we can build upon past studies (conceptual and empirical) to meet our purpose of identifying marketing universals:

1. Development and testing of a universal model of structural or institutional change within market systems.
2. Cross-national studies of urban and rural retailing of durable and non-durable packaged goods, services, raw materials, and public goods.
3. Comparisons of import-export market structures in developed and developing countries.
4. Historical analysis of advanced market systems (using specific units of comparison) in different advanced countries.
5. Comparative studies of marketing goals, actors, efficiencies (25).
6. Development and application of standards for measuring market system productivity universally.
7. Development of universal and normative standards for marketing system performance.
8. Comparative evaluation of attempts to re-structure or otherwise improve urban food retailing in developing countries, using performance standards in longitudinal measurement.
9. Development of norms for market structures and/or institutions in similar environmental contexts.
10. Development of a general theory of market development, based on empirical research.

Table 1

BASES FOR COMPARISONS IN COMPARATIVE MARKETING STUDIES

Type of Comparative Marketing Study	Examples of Specific Units for Comparison
Comparisons of Similar Institutions within Different Market Systems	retailers wholesalers producers suppliers
Comparisons of Market Processes for Similar Types of Products	industrial goods food products public goods (divisible and indivisible) packaged goods durable products raw materials/commodities services
Comparisons of Market Processes Serving Similarly Located Markets	urban markets rural markets suburban markets import/export markets
Comparisons Using a Similar Scope of Inquiry	intra-national, regional national international, regional worldwide
Comparisons Focussed on Similar Marketing Phenomena	market structure market institutions marketing actors market goals, behaviors market effectiveness/efficiency market productivity marketing environment relation of any of above to their environments

Table 1, Continued

Type of Comparative Marketing Study	Examples of Specific Units for Comparison
Essence of the Comparison	implicit comparison to a domestic system comparison of two market systems comparison of multiple market systems worldwide generalizations about market systems
Focus of the Comparison	cross-sectional longitudinal historical/developmental

Table 2

EXAMPLES OF GENERAL CHARACTERISTICS OF
URBAN FOOD RETAILING IN UNDERDEVELOPED MARKETS

Structural	Institutional	Behavioral
little or no standardization or grading	small, family-owned independent units	seller's market
trading areas are static	limited product assortments	frequent purchases
physical and informational distances between producers and consumers	high labor to capital ratios	small quantities purchased
production of food products insufficient for demand	few services with exception of credit are provided	shop in close proximity to residence
high amount of product waste	small physical size of stores	unable and unwilling to travel very far to make purchases
persistent shortages and speculation in commodities	high margins, low volumes	divide purchases among multiple stores
import-oriented and dependent	sell to consumers as well as other retailers	

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Vertical Integration in Food Distribution
in West Africa: The Failure of High Technology Transfer

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Vertical Integration in Food Distribution in West Africa:
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ABSTRACT

Vertical integration was proposed by many to solve inherent problems of food distribution in developing countries. This paper analyses the experience of Ivory Coast and the reasons for the development of a vertical marketing system for rice in that country and for its failure.

Researchers who have studied food distribution systems in developing countries have identified two major interrelated structured deficiencies in these systems. One problem has been the extreme fragmentation and weakness of the traditional retailers; the other, the long and disorganized distributive channels (Galbraith and Holton 1955, Kelly et al 1974, Slater 1969, 1970, Riley 1970).

The conclusions of the early research in this area was to advocate the replacement of the traditional system of distribution by a modern one, typified by large scale retailing and vertically integrated distributive systems.

Slater (1970) for example proposes that

"Vertical coordination of the marketing system reduces the intermediaries' risks associated with transactions. The capital available to the intermediary is expanded...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 capacity"

Marketing researchers studying marketing channels in developed countries have provided additional theoretical support for the advantages of vertical marketing systems over loosely arranged conventional channels (Etgar 1976, Stern and El-Ansary 1981, Stern and Reve 1980). Following this line of research, vertical marketing systems whether through a vertical integration, use of contracts or power, is expected to improve channel efficiency and performance.

The major rationale for the advantage of a vertical marketing system is proposed to be its inherent economies of scale, faster and better movement of information, greater ability to shift functions in the channel, and a greater ability to absorb risks and to reduce conflicts. Those advantages allow such a system to

adopt large scale technologies, speed channel flows, reduce redundancy and thus improve productivity.

These recommendations have been adopted by governments in many developing countries and served as a base for their domestic marketing policies (FAO 1976, Bucklin 1976). Establishment of supermarkets was encouraged as well as of vertically integrated distributive systems. While the former was often left for the private sector, the latter has been usually achieved by direct governmental interference in the distributive process, through the establishment of government dominated marketing organizations (FAO 1970, Goldman 1981).

Recent research has pointed out that transfer of advanced marketing technology to developing countries in the form of mass retailing institutions has not succeeded (Bucklin 1976, Goldman 1981). Introduction of supermarkets in developing countries was only marginal, and whenever they have been introduced, they failed to change the costs and patterns of distribution of food for the population at large.

There is, however, less evidence about the success of policies designed at the marketing channel itself and at creation of vertical marketing systems. This paper reviews critically the experience of the introduction of such a vertically integrated distributive system in one developing country; the Ivory Coast. It examines the factors that led to introduction of such a system, the issues that it has generated and the reasons for its failure. It discusses then alternative modes of channel improvement.

TRADITIONAL CHANNELS

With the increased rate of urbanization and the growth of population concentration in their large cities, the importance of providing food to urban centers in developing countries has become a major political, economic, and social issue,

in these countries. While some of their food requirements is often provided by short channels from neighborhood villages and production centers, the sheer volume of the required flows usually requires organizing supplies from diverse parts of the country and from abroad.

To respond to these needs, long channels involving several intermediary stages have developed. The operation of such channels has been however subjected to substantial criticism and demand for improvement.

(FIGURE 1)

Figure 1 presents a typical, traditional channel of distribution for staple food products to be found in Ivory Coast. This channel is concerned with delivering food items to urban dwellers and especially residents of the capital, Abidjan. The channel includes collectors, assembling wholesalers, shippers, distributing wholesalers, secondary wholesalers and various retailers.

"Collectors" are operators who own a medium or large size trucks. In season for each product, they circulate through the villages following specific routes, buying food from the farmers, and sell it in turn, to assembling wholesalers. The latter resell the products to urban wholesalers found in the major consumption areas. The sale is either through agents of the latter or to secondary wholesalers-transporters who purchase foodstuffs on their own account and transport them in their own trucks to consumption areas.

Urban wholesalers are distributing wholesalers and are found primarily the two major cities of Abidjan and Bouake. People of northern origin (dioulas) are conspicuous in the profession. A feature common to all urban wholesalers is their low capital base, small turnover and small storage capacity. As a result, few can store produce for more than a few days and physical losses due to dehydration, pests and maladies are high. Wholesalers are often not specialized and ready to sell both at wholesale as well as retail.

The distribution of products at urban markets is further complicated by the presence of sub-wholesalers ("demigrossiste"), in all urban centers. The sub-wholesalers are usually women and family related to the wholesalers who extend them some credit. Their role is not often well defined as they tend to sell both at wholesale and retail. Thus, sub-wholesalers operate as sellers in retail markets located near the wholesale markets in the urban areas. They also sell at wholesale to peddler women who sell produce in the streets and in other urban markets.

Urban retailing in Ivory Coast is carried out in three forms: central markets, peddler women and modern supermarket stores. The role of the latter is, however, limited to serving the European and the higher income African population. For that purpose, they tend to rely on an offer of imported food products and processed and semi-processed foods. Central urban markets are the basic outlets serving with the peddlers the bulk of the urban population. In Abidjan, the most recent survey (in 1974) estimated the number of retail women at about 10,000, operating in twenty markets spread out throughout the city.

A CRITICAL REVUE

Traditional systems of food distribution such as the one described above manages the delivery of all food staples to major Ivorian urban markets. Over the years, their operation has come, however, under a heavy attack from government officials, economists and international consultants (I.B.R.D. 1974, Jansonias 1975, Ministry of Economics 1974, FAO 1976, CIERIE 1978, Bollinger 1978). The major points of criticism raised against the Ivorian distributive system are similar to those voiced by critics in other countries (Riley 1970, Slater 1969, Slater 1970, Harrison 1974). The major points are summarized as follows:

Scarcities. Food staples constitute the major part of the salary intake of populations in developing countries. While rural dwellers can and do rely on self-grown food for their own consumption, urban dwellers rely almost exclusively on the market provided foods. The rapid growth of the urban population thus imposes increased demand in the marketing system to deliver a growing amount of food and handle greater and greater volume.

In Ivory Coast, the limitations of the traditional urban wholesalers had severely strained their capacity to handle increasing quantities, especially due to their small physical capacities and financial limitations which do not allow them to accumulate stocks required. The perceived inability of the existing channel to funnel through the vast growing quantities of food items required to feed the ever growing population was blamed for the consistent shortages of food items in the capital.

Shortages of food have substantially powerful political and social implications for many developing countries. Shortages of basic food staples create a danger of starvation for the urban population and especially the urban poor whose nutritional diet consists primarily of consumption of basic staples which provide calories (energy) such as rice, yams or manioc. Scarcities can therefore lead to grave dissatisfaction which in turn can lead to political unrest, of which most African governments are highly afraid of.

Price instability. Due to the low level of per capita income in developing countries, a major part of the income of the population is spent on expenditures in basic food staples. Increases in the prices of such goods are therefore affecting substantially the welfare of most of the population.

Stability of prices is therefore a major issue of concern in developing countries. In such countries, local scarcities tend to drive prices up substantially, creating a substantial hardship for consumers. Higher prices tend

also to generate speculation whereby foodstuffs are hoarded, driving prices up even further.

At the same time, price fluctuations tend to affect negatively producers. At time of abundance, prices received by producers drop significantly reducing their incentives for increasing marketable supplies in the next period. Producers prefer them to increase production of export oriented crops.

Marketing costs. The current structure of the traditional distributive system has in-built substantial cost excesses. Due to their small size, wholesalers need to spread out their costs over small volume raising costs per unit handled. Shrinkage costs due to improper storage increase costs as well.

Costs are also high due to the length of the channel and the proliferation of economic agents participating in the process. A large number of the marketing entities such as collection, transportation, dispersion, are performed by a distinct entity which lengthens the channel.

Finally, it was argued that the excessive fragmentation of the distributive channel leads to excessive costs due to the small scale of most operations in it especially at wholesale and processing levels. In the traditional channel, processing of rice was done by small mills which were owned by independent businessmen throughout the country.

Information and incentive feedback. Critics of the traditional system have suggested that it has not provided producers with enough incentives for expanding production for the markets, forcing the entry to rely more and more on imported foodstuffs.

The major issue which has been raised by the critics was that in the traditional system of distribution, the producer has to bear an excessive part

of the risks, and receive a relatively low share of the marketing profits of the channel. The wholesalers were viewed as the major beneficiaries of the distributive structure benefiting from their focal role in the channel, and control over markets, information, transportation facilities and storage facilities.

GOVERNMENT POLICIES

The criticism of the traditional system of food distribution has led the Ivorian government to intervene actively in the marketing process of foodstuffs.

Ivory Coast has a long tradition of governmental intervention in the marketing of agricultural products. The government, however, has traditionally limited its intervention to export products, especially cocoa and coffee directed at export markets. Since the colonial days, marketing boards have been set up which controlled pricing of the exported items (Jansonias, 1975; Ministry of Economics, 1974; CIERIE, 1978).

Governmental intervention in domestic marketing of food has taken place through governmental involvement with the distribution of rice. So far, rice is the only food item where such an intervention has taken place. As for other food products, there is relatively little direct involvement whether in the form of producer or consumer price controls or in collection or distribution.

The nutritional habits of the Ivorian population reflect the traditions and experience of Africans in particular and of inhabitants of developing countries in general. Their diet is mainly composed of cereals such as rice, maize, or sorghum, or tubers such as manioc or yam. Rice occupies, however, a

privileged position in Ivorian consumption. Originally, a food of tribes residing at the northern part of the country, it has in the last two decades become a product of focal interest to Ivorian consumers and particularly the ones residing in the urban areas. Consumption of rice has increased from 276.8 thousand tons in 1970 to 564 thousand tons in 1980 (SA, 1981).

Marketing of rice paddy was viewed by government officials as a critical bottleneck for the expansion of the rice sector. In an effort to improve paddy marketing, an official minimum price was introduced in 1966. Yet, till 1974, governmental pricing programs have failed to enhance rice expansion as hoped for by the governmental officials.

To alleviate the problems encountered in the traditional sector, the government of Ivory Coast decided to set up an alternative system of distribution.

THE GOVERNMENTAL CHANNEL

Consequently, in 1974, the government set up a government controlled organization ("societe d'etat"). Its role was to replace the traditional intermediaries responsible for the various marketing activities from the rice paddy collection stage, through milling to urban distribution which were to be all organized internally within the organization. Thus in effect, the government created a large, vertically integrated vertical marketing system to intervene between the farmer and the retailer (see Figure 1).

The ideal behind the creation of such a system was that it would be able to correct the major shortcomings of the traditional distributive system. To provide greater security to farmers, it purchased rice paddy from farmers at a fixed price. The organization set up large, modern mills,

established modern storage tanks and set up a transportation system for hauling rice from production areas to mills and to consumption areas.

The organization was set up as an independent business entity with its own budget. The government, however, limited its mode of operation, by determining the prices it had to pay to farmers for the collected rice as well as the prices at which it was required to sell the milled rice to retailers and secondary wholesalers. Any deficits which the company would have had occurred due to this governmental policy, were supposed to be covered by the government.

Following its establishment in 1974, the rice marketing organization has handled over 75 percent of all commercialized rice in the Ivory Coast and practically all rice delivered to urban centers (Humphreys, 1979).

RESULTS

In 1980, the original corporation, set up by the government to manage rice distribution was dissolved, leaving over 100 million dollars of deficit. Since then, the rice distribution policy has not been redetermined. A review of the experience of the government in running a vertically integrated channel points to several problems raised as a result (CIERIE, 1978; Humphreys, 1979).

Costs. An analysis of marketing and processing costs incurred by the government managed channel, reveals higher marketing costs. For milling rice, the government has established large milleries which are only partially fully utilized. The private mills are usually smaller closer to the production areas. They are often utilized for milling other agricultural products, lowering average rice milling costs. As a result, milling costs at

government mills are estimated to be about three times larger than in private mills (Humphreys, 1979; CIERIE, 1978).

Subsidization. Due to political considerations, the government of Ivory Coast, has been hesitant to raise consumer prices to the level reflecting actual marketing costs of rice in domestic markets. As a result, the former lagged consistently after the latter, forcing the government to subsidize rice heavily. The subsidization has generated, however, its own vicious cycle; as the nominal price of rice has been artificially kept stable, its real price in nutritional terms has decreased, compared to other alternative sources of carbohydrates available to the Ivorian population. This in turn increased the demand for rice, creating scarcities whenever supply has not caught up with the rising demand.

Political complications. The increased need to subsidize rice consumption required that the government transferred the subsidy to the organization in charge of rice marketing. This, however, often has not been done. In order to "save," the treasury has frequently delayed the transfer, forcing the marketing organization in the short run, to finance its operations by short-term bank loans, which in turn increased further marketing costs.

Towards the end of the 70's, the financial position of the Ivory Coast has deteriorated. To reduce budget deficits and financial outflows, the Ivorian treasury has increased the delays in transferring the rice subsidy. The rice marketing organization has found itself in a cash-short situation which has forced it to suspend payments to farmers for rice delivered to its collection section. This has soon led to farmers' refusal to deliver rice. Instead, farmers have turned to the private market and channelled their rice there.

Shortages in rice have led to rioting in the cities and political disturbances. The disturbed government decided in 1980 to dissolve the rice marketing organization and reevaluate its rice marketing policy.

DISCUSSION

This case study of governmental policies towards improving food distribution in developing countries, reveals the basic weakness of the strategy of establishing government managed, large scale distributive systems set up to capture the presumed economies of scale which the private wholesalers cannot offer, and thus lower substantially costs of distribution. The example of Ivory Coast points out that such an attempt is often counter-productive. Distributive costs have not declined here. On the contrary, they have actually increased. None of the other goals have been achieved either.

The analysis of the vertically integrated channel of distribution reveals that such a system suffers from the disadvantages of centralized vertical marketing systems encountered in developed countries coupled with issues specific to developing countries. It has a tendency to rely on expensive, large-scale processing and/or storage units, develop complex and top-heavy beaurocratic structure and be relatively inflexible in operations.

In developing countries such organizations also become embroiled in political squabbles over budgets and basically suffer from disadvantages of both a private corporation as well as of a governmental unit. Being a public body it is expected to pursue government policies and subjugate economic, financial or commerical opportunities to these goals. Thus in Ivory Coast, the government rice marketing organization could not have profited from the

focal position in the market and apply appropriate pricing policies.

At the same time, such an entity is viewed by the governmental agencies (Ministry of Agriculture, the Treasury, etc.) as an independent entity, external to the governmental system. They expected therefore that the rice marketing firm will solicit its own funds and had not qualms about denying it the requested assistance. The firm was expected to survive by itself even though it had to operate within limitations created by the government.

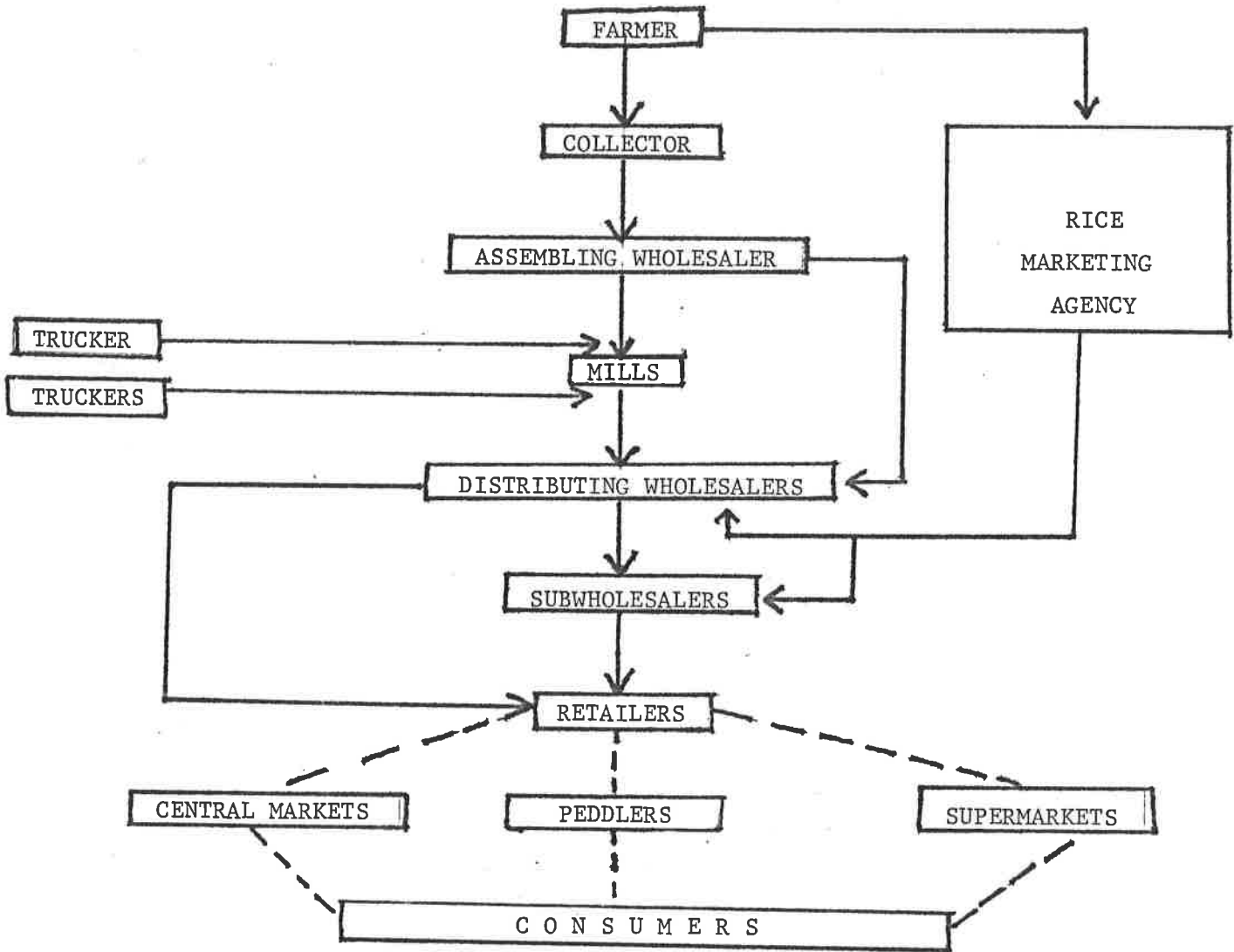
The failure of government-run bodies suggests that improvement in distribution has to be done in the traditional channel itself. The experience of Ivory Coast shows that this channel has an ample capacity for collection, transportation and milling, but its weak link was the urban wholesale distributive end. Improving this link requires assisting wholesalers to reach the size which would allow them to benefit from economies of scale. This would call for provision of various subsidiary assistance. The government probably needs to provide low cost warehousing facilities, financing assistance for inventory holding, cheap packaging, etc. Such an assistance will allow wholesalers to be able to perform their functions efficiently.

While such a program does not provide for an immediate solution, in the long run it is more efficient. One however often encounters doubts in developing countries as to this solution. The doubts reflect a basic disbelief of government officials in the ability of an uncontrolled independent and a long marketing system to function effectively. This disbelief reflects often lack of marketing knowledge and excessive reliance on technological or engineering solutions to economic or marketing problems. Improving food marketing in developing countries calls therefore often for an

educational change before structural changes can take place.

FIGURE 1

A TRADITIONAL AND MODERN CHANNELS OF DISTRIBUTION OF RICE IN IVORY COAST



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**Reverse Channel Mapping:
A Method for Examining the Effectiveness
of Macromarketing Systems**

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ABSTRACT

Reverse Channel Mapping (RCM) is a valuable macromarketing research methodology, especially appropriate for evaluating the effectiveness of macromarketing systems. RCM uniquely incorporates into backward channel mapping an objective function to allow evaluation of the effectiveness (social goal achievement) of the marketing system. An application of this approach to mapping a food life support system (LSS) of a nation is described in order to demonstrate particular strengths of the method and build an argument for its general application.

INTRODUCTION

The aim of this paper is to demonstrate the usefulness of a macromarketing research methodology known as Reverse Channel Mapping (RCM). A discussion of the origins and characteristics of the approach and illustrations of its use provide the background for examining the particular advantages of RCM with respect to evaluating the effectiveness of marketing systems. As accepted definitions of the field of marketing broaden (Kotler), a systems approach to marketing research becomes increasingly appropriate. Marketing has been defined broadly as the satisfaction of human needs or wants (Stanton). In that context, marketing has a contribution to make in improving a standard of living (Fisk, 1967). This may be especially true in developing economies, where subsistence has yet to be achieved. Thus, the functioning of general socioeconomic systems for delivering goods and services to a population is a logical focus of inquiry in macromarketing research.

RCM's unique contribution to macromarketing research lies in its potential to bridge the gaps which presently separate the major themes of macromarketing research: effects, systems, and policy. It has been argued that an approach which integrates all three of these basic concerns is necessary to advance the usefulness of macromarketing research worldwide (Dholakia and Nason). Reverse Channel Mapping serves this need as it:

- (1) identifies the subsystems involved in the macromarketing systems under analysis;
- (2) determines the effects of that system through inclusion of an objective function; and
- (3) identifies points of intervention where changes in public policy may assist in improving the effectiveness of that system.

REVERSE CHANNEL MAPPING

Reverse Channel Mapping is a systematic method of examining the effectiveness of macromarketing systems. Beginning with the consumer and moving backward to the manufacturer, inquiries into the knowledge and practices of each member of the distribution channel (including retailers, wholesalers, and manufacturers) are conducted. Simultaneously, an objective function, or independent measure of the system's goal attainment, is established. The Reverse Channel Mapping exercise provides information which leads to the identification of points of potential policy intervention aimed at adjusting the ability of the system to reach its goal.

RCM derives from earlier work on market systems and flows analysis. Market systems analysis applies a general system approach to the study of marketing in that goals, organizations, inputs, and outputs of a marketing system are all examined in order to determine efficiency and effectiveness of the system (Fisk, 1967). Cox argued that the most efficient approach to considering what marketing is supposed to do is to convert the functional approach into a "flows analysis" (Cox, 1965). An early flow analysis used a channel map to analyze the flow of house building materials (Cox and Goodman). Other researchers have used a flow analysis framework in order to introduce structure to similar studies (Jaffee, Cox, Fisk, and Dixon). In another context, the methodology has been presented as a superior approach to the study of public policy formulation in a U.S. federal decision making context (Elmore).

RCM is especially suitable as a means of evaluating the effectiveness of macromarketing systems including life support systems. An underlying assumption of RCM is that marketing delivers a standard of living, and that the quality of that standard is of concern to each of the parties involved in the marketing system. RCM more than includes the consumer into a system analysis; it requires

direct input by consumers as the starting point for evaluating a marketing system. This approach is preferable to more traditional research designs which begin the study of channel flows at the point of production. RCM, by starting at the point of consumption and moving in reverse to the point of production, makes it more likely that all relevant subsystems will be identified. RCM may also add a map of the real or perceived risks to participants in the marketing system (Nason and White). The result is a more inclusive map of the overall system. This inclusiveness helps to restore or at least protect the balance between consumers (those served by the system) and organizations that perform system functions. RCM may thus be used as a macromarketing tool. Forward channel mapping, while of considerable value, is more appropriate as a tool of micromanagement.

Reverse Channel Mapping supplements previously proposed measures of marketing activity, such as efficiency, equity, freedom of choice, and adaptability (Arndt) by allowing the incorporation and measurement of the criterion of effectiveness. The RCM process adds to channel mapping the critical component of an objective function. As reported in this paper and as applied to the study of food life support systems, this function is measured by the twin evaluation techniques of caloric intake estimation and anthropometry. These techniques are more fully described later in the paper.

The inclusiveness of the channel map and the application of an objective function combine in RCM to assist in the identification of issues of public policy which bear on the effectiveness of a given macromarketing system. RCM thus provides a means for operationalizing Arndt's notion of a political economy approach which would define "the proper research questions to be asked" within the context of benefits sought by various participants in the marketing system. (For a full discussion of the political economy approach, see Arndt).

LIFE SUPPORT SYSTEMS

A life support system (LSS) is a set of interrelated channels through which a basic human need is provided to an identifiable population. Basic needs are those needs essential to survival, or to the maintenance of a minimum standard of living (Maslow, Slater, 1979). In Table 1, some basic needs are listed with examples of potential LSS correlates. Each LSS is a system of broadly defined exchange wherein goods and services are delivered to consumers in exchange for money, time, political support, or other assets.

The food LSS has as its goal the provision of a nutritionally adequate diet. The achievement of this goal is both humanitarian as well as politically and economically crucial to any social system. If the food LSS does not function efficiently and effectively, the population does not receive adequate nutrition. Inadequate nutrition stunts the physical and mental growth of children and reduces productive capabilities of adults. The effectiveness of the food system in meeting a basic human need is thus of great social significance. The food LSS of Lesotho, Africa is the focus of the RCM application discussed in this paper. However, the same basic research mechanism may be applied to any individual LSS, or to interactions among them in the larger economy.

THE LESOTHO STUDY

The Reverse Channel Mapping method described earlier has been applied to the food life support system of Lesotho, Africa, a small mountainous nation and former British colony entirely surrounded by the Republic of South Africa. (For a full explanation of the research, see Sefali.)

For purposes of discussion, this paper defines the food LSS as that set of delivery channels that serves a basic nutrition need. Key components of this LSS included household units, as both producers and consumers of food, distributors

(such as retailers and wholesalers), and manufacturers or processors of food-stuffs. Data collection in each component was achieved through surveys designed to gather information about the knowledge and practices of participants.

The study involved two separate streams of activity. In one, the channel mapping exercise was performed; this included the caloric intake estimation portion of the objection function. In the other, a Nutritional Assessment Survey was conducted, using anthropometry and other measures to analyze nutritional status. The sample design for both activities was complementary, with the channel mapping exercise drawing on a subsample of the larger Nutritional Assessment Survey. A systematic random sample designed by the Population Bureau of Lesotho was employed. This approach assured representativeness by geographic region (urban, lowlands, foothills, mountains). The number interviewed in each area varied with population density.

The channel exercise included surveys of 631 households, all relevant retailers who served the households in the sample frame, and all the wholesalers who served the retailers. Manufacturers and processors of food products were also consulted regarding their practices and problems in food marketing. On a national basis, the household survey allows a 95 percent confidence level that error will be ± 4 percent when expected percentages of response are at its 50 percent level. The National Nutritional Assessment Survey allows a similarly high confidence level (UCLA).

Household surveys focused on food consumption, food production, shopping habits, and expenditures. Standard demographic data were gathered simultaneously. Household respondents were female heads-of-household or major food practice decision-makers. In households that produced food, supplemental interviews were conducted with the person who made major decisions concerning productive activity.

Moving in a reverse direction through the food system, distribution channel members were surveyed. Distribution channel surveys tapped the food marketing practices and problems of retailers, wholesalers, and food processors or manufacturers. Data were collected on the consumption, distribution, and production functions of each component. Product selection (inventory), prices, location, credit policies, and other important operational aspects of the food system were included in surveys designed to provide information about perceived risks, problems, and sources of efficiency and effectiveness. By tracing the links from consumer to producer, the surveys provided data which illuminated the interactive nature of the LSS, including the presence of and relationships among subsystems.

Primary data collected through surveys were supplemented by relevant secondary data, such as related studies, national nutritional data, and national demographic data (e.g., World Bank). By corroborating and supplementing survey results, these secondary sources aided in the achievement of a more complete picture of overall LSS functioning.

Identification of Subsystems

From the data collected in the channel mapping activity, specific subsystems of supply and demand of foodstuffs were identified. Each major subsystem, as well as the derived coefficients of importance, are displayed in Figure 1. The coefficients were derived from the primary data gathered in the channel mapping exercise and were corroborated where possible with secondary data.

On the demand side, three major subsystems which generated income and allowed the purchasing of food were identified. Local non-farm income was reported to be a national aggregate of \$41.4m. Sources included non-farm employment, such as trading, manufacturing, and transportation. Remitted income (\$52.9m) is money sent home by those employed (largely miners) in the Republic of South Africa.

Farm income totalled \$58.6m. Total income spent on food (demand) was reported as \$66.7m, or 43.6 percent of total income (\$152.9m).

Food was found to be supplied by three basic subsystems: direct farm consumption, foods marketed through commercial channels, and donated foods. Using data gathered from consumer surveys, trader surveys, and secondary statistics, the coefficient of importance of each channel was estimated as reflected on the supply side of Figure 1. Direct farm consumption was calculated from primary data gathered in the channel mapping activity, combined with secondary data from agricultural surveys and household consumption estimates. These data indicated that 45 percent of the total supply of food came from direct consumption of agricultural output. Consumers' reported purchasing patterns and retail sales of food products, combined with import statistics and other secondary data, indicated that an additional 45 percent of foods were delivered through the commercial channels subsystem. This finding was of particular importance to the Government of Lesotho, as the degree of participation of the commercial food channels in the food LSS had previously not been known. Donated foods accounted for ten percent of the supply of food.

The Objective Function

The distinguishing feature of the RCM method described in this article is the incorporation of an objective function which permits evaluation of LSS effectiveness. In the Lesotho study, the objective function was comprised of twin measures of nutritional adequacy as delivered by the food LSS. The first measure, based on a combination of primary and secondary data, was the representative caloric intake of households. For this measure, a model family was constructed in order to assess whether cash and in-kind income was sufficient to supply a minimum of needed calories. The model family had an average of 4.3 resident household members. Using reported cash income as verified by secondary

statistics and reported food expenditures verified by retailers and sales records, it was discovered that approximately 25 percent of cash income is spent on calories, and overall food purchases accounted for roughly 44 percent of all annual household income.

Food and Agricultural Organization (FAO) Food Conversion Tables for Africa were used to convert cash purchases and on-farm consumption of food into calories available. From these calculations it was determined that the model family consumed 1,780 calories per person per day. This amount failed to meet the necessary minimum of 1,800 per person per day, as determined by FAO requirements for the model family. Secondary and primary indicators of income distribution were then used to determine that nationwide, 30 percent of all families did not achieve even the marginal sufficiency level of the model family due largely to insufficient levels of income (Sefali).

A separate yet overlapping measure of the effectiveness of the food LSS was undertaken by the Nutritional Assessment Survey employing anthropometric measures (UCLA). Anthropometry involves the use of ratios of nutritional well-being, such as weight-for-age, weight-for-height, height-for-age, arm circumference-for-age, and others. The method has been shown to be useful in relating these measures to nutritional status and mortality risk in the population under consideration (UCLA, Chen, Trowbridge and Sommer). This technique allows a quick and accurate assessment of nutritional status; its usefulness has been demonstrated in several countries, including Sierra Leone, Camerons, Liberia, and Bangladesh.

The Nutritional Assessment Survey took several measures of nutritional well-being. The one measure represented as part of the objective function in Figure 1 is the height-for-age measure. This indicator of chronic undernutrition has been

The first part of the paper discusses the importance of understanding the market environment. This involves identifying the key players, their interests, and the overall dynamics of the market. A thorough analysis of the market environment is essential for developing effective marketing strategies.

The second part of the paper focuses on the development of a marketing strategy. This involves setting clear objectives, identifying the target market, and selecting the most appropriate marketing mix. The marketing mix consists of product, price, promotion, and place, each of which must be carefully tailored to the needs and preferences of the target market.

The third part of the paper discusses the implementation of the marketing strategy. This involves putting the strategy into action and monitoring its progress. It is important to have a system in place for tracking and evaluating the performance of the marketing program, so that any necessary adjustments can be made in a timely manner.

Finally, the paper concludes by emphasizing the importance of flexibility and adaptability in marketing. The market environment is constantly changing, and marketers must be able to respond quickly and effectively to these changes. This requires a deep understanding of the market and a willingness to experiment and learn from experience.

found to be the best single measure of long term protein calorie malnutrition (UCLA, Chen). Using this measure, it was determined that some 20 percent of all children surveyed showed signs of chronic protein calorie malnutrition.

On the basis of these two measures, it was concluded that the objective function of nutritional adequacy, as delivered by the Lesotho food LSS, indicates that the system is not effectively delivering sufficient foodstuffs to between 20 percent and 30 percent of the population.

PUBLIC POLICY IMPLICATIONS

The evaluation of the Lesotho food LSS allowed identification of several possible points of intervention aimed at increasing the effectiveness of that LSS. Based on the research and analysis, 18 major policy alternatives were identified. These alternatives were grouped into four major areas which deserved attention. First, nutritional program development, such as education, planning, and the identification of specific research issues, was recommended. Second, specific policies were identified which would help enhance the nutritional efficiency of the LSS. Included were alternatives such as mobile health clinics, family planning, food standards legislation, trader training programs, and infrastructure development. The third area of intervention was enhancement of direct farm consumption. Alternatives to be considered included repackaging of farm inputs to appropriate scale, storage support, price supports, silage programs for farm animals, and credit to small land holders. Finally, recommendations regarding ways to enhance the domestic production of commercial foods included efforts at erosion control, local food processing, and labor support programs (Sefali).

These recommendations, and the issues of public policy from which they were developed, are doubtless not unique. What is unique is that the recommendations are based on systematic inquiry into the food LSS (channel mapping exercise) and

the overall effectiveness (objective function) of the food life support system in the country for which they were developed. That LSS was found to be lacking in that it fell short of goal attainment (delivering basic nutritional needs) by 20 percent to 30 percent. In an effort to achieve full goal attainment, public policy recommendations were devised based on an intimate acquaintance with the interaction of subsystems within the food LSS and the expressed needs and wants of participants throughout the food channels.

As a result of using the RCM method, it was possible to identify which policies were likely to be effective, to which participants in the LSS, and critically, to track the impact those policies might have. The effects of system intervention (in the form of policy shifts) can be tracked against the baseline information gathered initially. This capacity for ongoing system monitoring is an essential component of policy and program implementation aimed at insuring optimal effectiveness of a system in meeting specified goals.

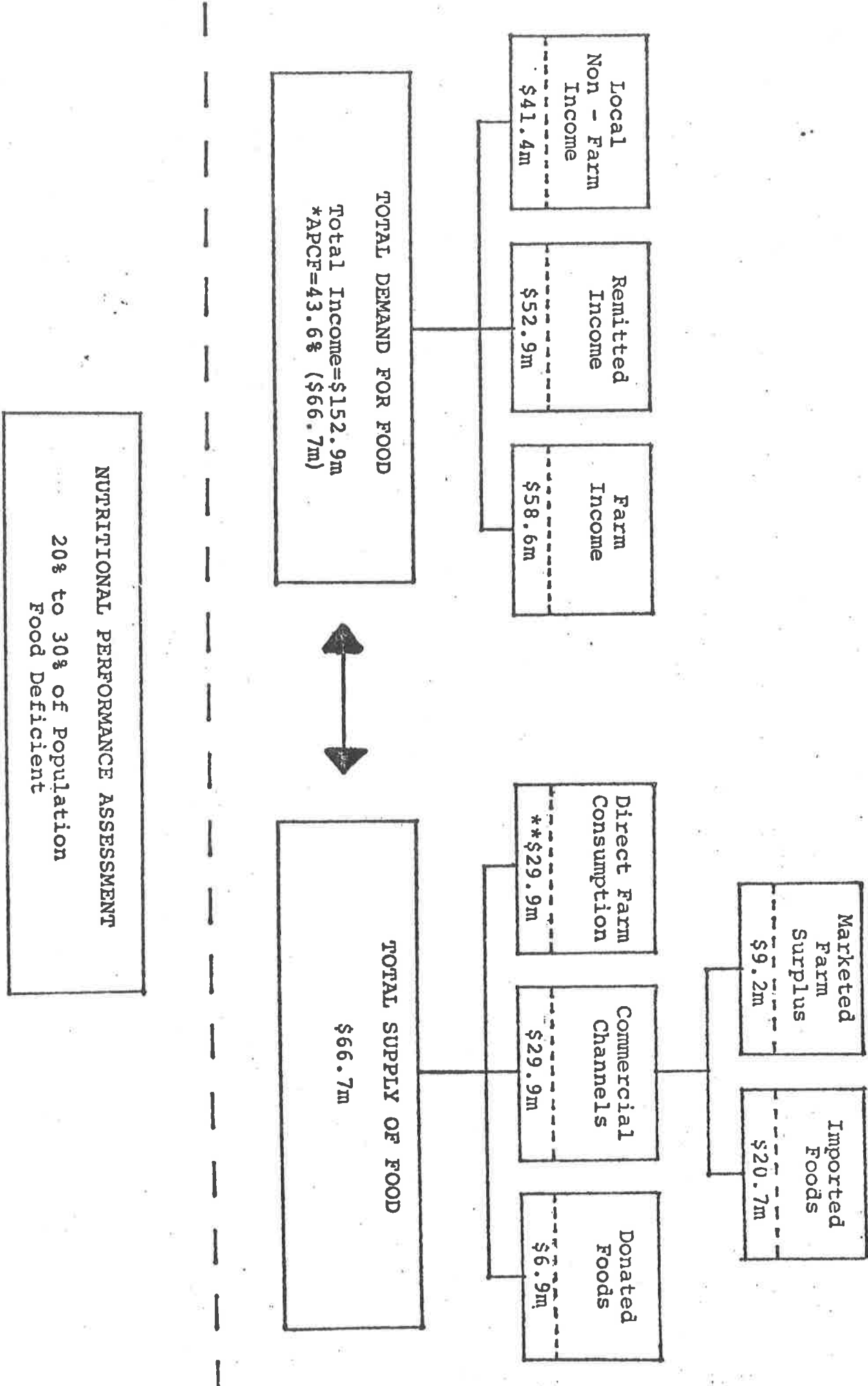
CONCLUSION

This paper has demonstrated the usefulness of Reverse Channel Mapping in assessing the effectiveness of macrosystems, specifically life support systems. Application of the approach to the food system of Lesotho has been described as a means of illustrating the processes by which system effectiveness is measured. The particular strength of RCM is its capacity to incorporate into a systems analysis (channel mapping) measures of the effectiveness of that system (objective function), thus providing an empirical basis for identifying policy recommendation aimed at improved system effectiveness.

TABLE 1

Basic Needs	LSS Correlate
Security	Military, Police, Justice
Nutrition	Food
Shelter	Housing, Clothing
Health	Medical Sciences, Sanitation
Education	Schools and Training
Social Support	Family, Peers, Reference Groups
Mobility	Transportation
Aesthetics	Arts

FIGURE 1



* Average Propensity to Consume Food
 ** Impute value at retail equivalent

Figures may not add exactly due
 to rounding and conversion rates.

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~~MACRO MARKETING RESEARCH:
A PROPOSED METHODOLOGY~~

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MACRO MARKETING RESEARCH:
A PROPOSED METHODOLOGY

ABSTRACT

Reverse channel mapping is a valuable macromarketing research methodology, especially appropriate for modeling macro socioeconomic systems. An application of this approach to mapping a food life support systems (LSS) of a nation is described in order to demonstrate particular strengths of the method and build an argument for its general application.

MACRO MARKETING RESEARCH:
A PROPOSED METHODOLOGY

INTRODUCTION

The aim of this paper is to demonstrate the usefulness of a macromarketing research methodology known as "Reverse Channel Mapping" (RCM). A discussion of the origins and characteristics of the approach and illustrations of its use provide the background for examining the particular advantages of RCM with respect to life support systems modeling. As accepted definitions of the field of marketing broaden (Kotler) a more universal systems approach is being taken. The functioning of general socioeconomic systems for delivering goods and services to a population has become a logical focus of inquiry in marketing research. Marketing has been defined broadly as the satisfaction of human needs or wants (Stanton, p.4). In that context, marketing has a contribution to make in improving a standard of living. This may be especially true in developing economies, where subsistence has yet to be achieved.

RCM's unique contribution to macro marketing research lies in its potential to bridge the gaps which presently separate the three thrusts of macro marketing research: effects, systems, and policy. It has been argued that an approach to integrate all three of these basic macro marketing concerns is necessary to advance the usefulness of macro marketing research worldwide (Dholakia and Nason). Reverse channel mapping serves this need as it:

- (1) identifies the subsystems involved in the major life support system under analysis;
- (2) determines effects and impacts of that system, especially when an objective function is incorporated into the analysis; and
- (3) identifies points of intervention where changes in public policy may assist in improving the effectiveness and efficiency of that life support system.

REVERSE CHANNEL MAPPING

This macro marketing research methodology is useful in studying and constructing improved models of a macro socioeconomic system. Beginning with the end point unit of consumption, RCM traces goods and services backwards (in a "reverse" flow) through the channels comprising the system(s) under analysis, to some point defined as the initial unit of production. The investigator is able to identify relevant transactions in the system and to generate empirically derived coefficients for those transactions, thus strengthening the general model which is eventually obtained. A closed system analysis may be derived by integrating a series of RCMs and their respective measures of performance. This content-neutral approach has been applied to the functioning of food and nutrition systems in lesser developed countries (Riley, Slater, 1969; Sefali). A similar methodology has been presented as a superior approach to the study of public policy formulation and implementation in a U.S. federal decision making context (Elmore). RCM creates the opportunity to engage in macro-level needs assessment by providing information about patterns of production, distribution, and consumption of basic goods throughout a given system. In this respect, RCM might be characterized as more inclusive than a more traditional approach to marketing by virtue of the incorporation of production issues, as well as those of distribution and consumption.

The inclusive nature of RCM makes the approach particularly appropriate for macromarketing research. Although any component of the system can serve as the initial or principal focus of inquiry, as a macromarketing technique RCM is distinguished by its focus on the endpoint consumer (usually a household unit). Viewing a macro system as essentially consumer-driven represents not only the best opportunity to achieve a holistic systems analysis. This approach also reflects the common underlying assumption that the social aim of the system (and

hence the research) is to assure adequate provision of a basic need to an identifiable population.

A logical extension of this approach would be the inclusion of an objective function to monitor the performance of a system. For example, provision of a nutritionally adequate diet has been suggested as an appropriate objective for evaluating a food system (Dahringer, 1979). Other criteria may be developed for macro systems which provide shelter, health, energy, safety, and education.

Compared to a more traditional marketing approach, RCM would be classified as belonging to the "political economy approach" rather than to the "neoclassical paradigm." "A political economy approach would call for identifying the benefits sought by the different stakeholder groups and assess the performance of marketing on those benefit dimensions." In other words, a political economy approach defines "the proper research questions to be asked." (For a full discussion of these two approaches and their differences, see Arndt.) The methodology necessary to operationalize a political economy approach was not developed in Arndt's paper. Reverse Channel Mapping fulfills that role. RCM is basically a research methodology which allows a systematic examination of the social consequences of marketing. It allows macro-marketers to add the criteria of effectiveness (achievement of societal objectives) to previously proposed measures of marketing activities such as efficiency, equity, freedom of choice, adaptability, and impact on quality of life and ecology (Arndt, p.45) RCM provides a physical map of the market system and adds a map of the real or perceived risks to participants (Nason and White). Thus, a superior knowledge base to initialize a system model is achieved.

LIFE SUPPORT SYSTEMS

A life support system (LSS) is a set of interrelated channels through which a basic human need is provided to an identifiable population. Basic needs are those needs which are essential to survival, or to the maintenance of a minimum standard of living (Maslow, Slater, 1979). In Figure 1, some basic needs are listed along with examples of potential LSS correlates. Each LSS is a basic system of broadly defined exchange wherein goods and services are delivered to consumers in exchange for money, time, political support, or other assets.

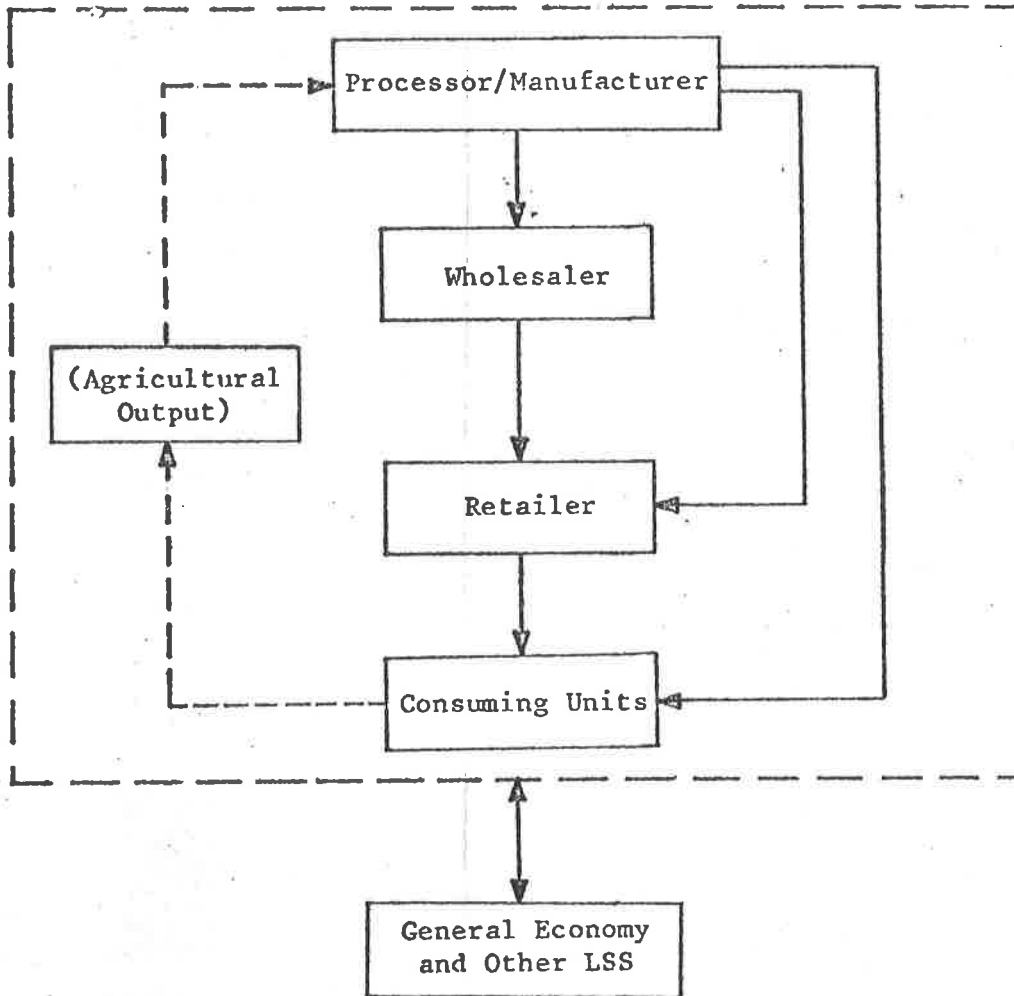
FIGURE 1

<u>Basic Needs</u>	<u>LSS Correlate</u>
Security	Military, Police, Justice
Nutrition	Food
Shelter	Housing, Clothing
Health	Medical Sciences, Sanitation
Education	Schools and Training
Social Support	Family, Peers, Reference Groups
Mobility	Transportation
Aesthetics	Arts

The Food LSS is a critical system as it is the underpinning the overall social system. The provision of a nutritionally adequate diet is a humanitarian, economic, and politically crucial goal in any social system. If the food LSS does not function efficiently and effectively, the population will not receive adequate nutrition. Inadequate nutrition stunts physical and mental growth, reduces productive capabilities, and induces social and political unrest. Nutrition, along with shelter and health, may be viewed as the most "basic" of the basic needs cited in Figure 1. The discussion in this paper centers around RCM as applied to a Food Life Support System analysis. However, the same basic research mechanism may be applied to any individual LSS, or to interaction among them in the larger economy.

For purposes of discussion, this paper defines the food LSS as that set of delivery channels that serves a basic nutrition need, linking households (which both consume and produce foodstuffs), with formal and informal retailers, wholesalers, and food processors/manufacturers. A simplified diagram of a food LSS is presented in Figure 2. The broken line surrounding the diagram serves to acknowledge the fact that the food system functions in the context of the general economy and interacts with other LSS.

FIGURE 2



APPLICATION OF RCM TO LSS

Historically, the application of reverse channel mapping research was developed through analysis of the role of marketing in food systems. In the mid-1960's, a series of studies in Latin America was conducted by Michigan State University (Riley, Slater, 1969). From a focus on food marketing, the research grew to encompass to the examination of the overall food and nutrition system for an area or country. More recent work combined RCM and closed system computerized modeling (Slater, 1979).

The reverse channel mapping methodology has been applied recently to study food systems in Lesotho, Africa. The general design involved the identification of sources of data describing key components in the food systems. Key components included household units as producers and consumers of food, distributors (such as retailers and wholesalers), and manufacturers or processors of foodstuffs. Data collection in each component was achieved through surveys designed to gather information about the knowledge and practices of participants. (For a full explanation of the research, see Sefali.)

Household surveys focused on food consumption, food production, shopping habits, and expenditures. Standard demographic data were gathered simultaneously. Respondents for the household survey were selected through a systematic random sampling procedure designed to assure representativeness by geographic area (urban, lowlands, foothills, mountains). Household respondents were female heads-of-household or major food practice decision-makers. In households that produced food, supplemental interviews were conducted with the person who made major decisions concerning productive activity.

Moving in a reverse direction through the food system (see Figure 2), distribution channel members were surveyed. Distribution channel surveys tapped the food marketing practices and problems of retailers, wholesalers, and food

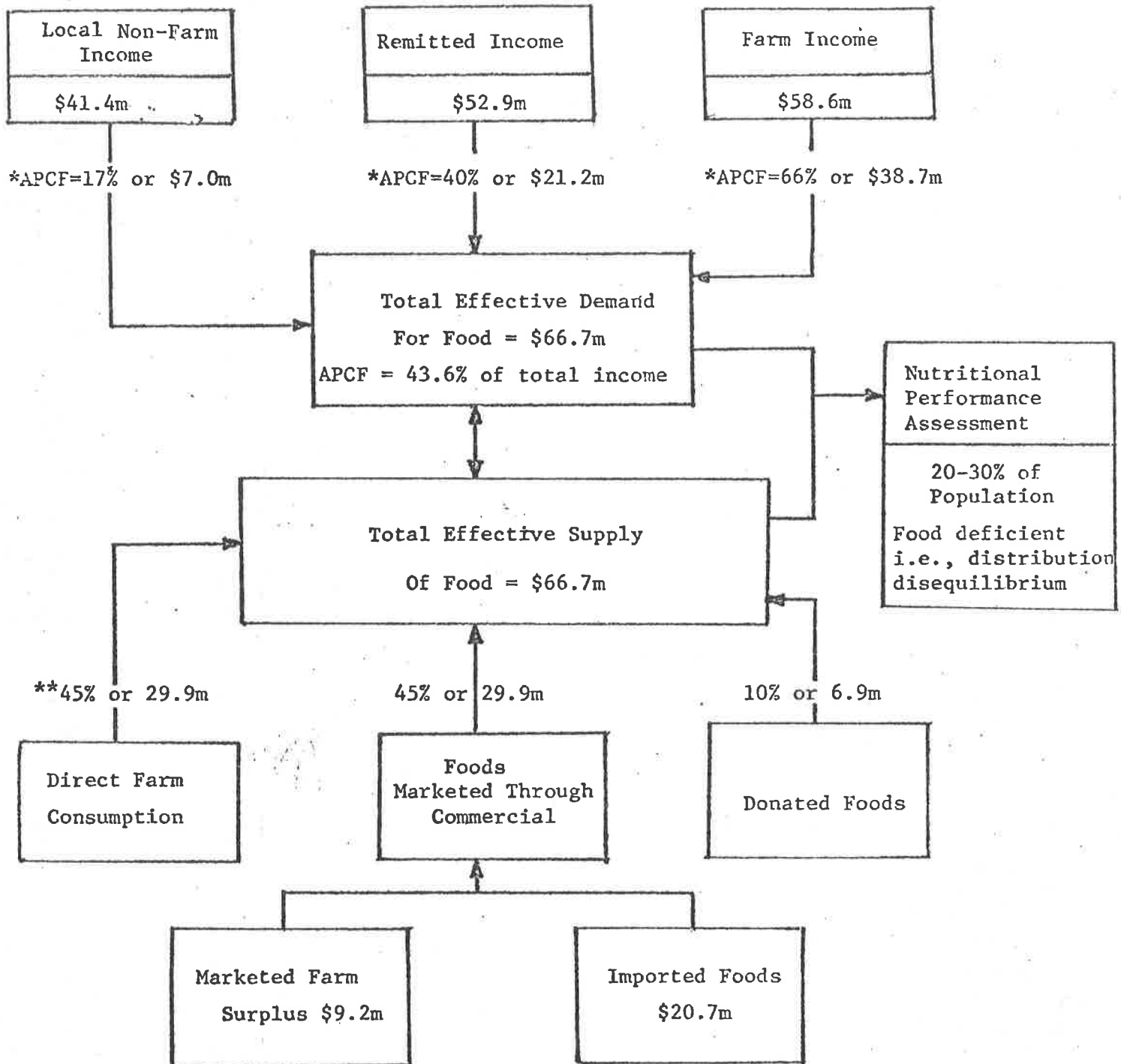
processors/manufacturers. Data were collected on the consumption, distribution, and production functions of each component. Product selection (inventory), prices, location, credit policies, and other important operational aspects of the food system were included in surveys designed to provide information about perceived risks, problems, and sources of efficiency and effectiveness. By tracing the links from consumer to producer, the surveys provided data which illuminated the interactive nature of the LSS, including the presence of and relationships among subsystems. The Lesotho food system, for example, is illustrated in Figure 3 with each subsystem's coefficient of importance.

Figure 3 was derived as a part of a larger study of the food system in Lesotho. The larger project incorporated two research studies, one as reported in the paper and another performed to provide a Nutritional Performance Assessment, i.e., provide an objective function to help assess the effectiveness of the food system (Zerfas). Both research projects stemmed from a National Nutrition Conference sponsored by the Government of Lesotho. The intent of the overall project was to examine the food system functioning, improve its effectiveness in terms of delivery of nutritionally adequate diets, and lower reliance upon food aid and imports from the Republic of South Africa (Sefali).

Coefficients indicated in Figure 3 were derived from primary research conducted at the National University of Lesotho. The Nutritional Performance Assessment indicates that the food system delivers food to people in an uneven fashion. Some families living in more physically benign areas, with higher incomes, have adequate diets. Primary and secondary data combine to indicate that the proportion of people not receiving nutritionally adequate diet is 20 to 30 percent.

Primary data collected through surveys were supplemented by relevant secondary data, such as related studies, national nutritional data, and national demographic data (Zerfas and Shorr, World Bank). By corroborating and supplementing survey results, these secondary sources aided in the achievement of a more complete picture of overall LSS functioning.

FIGURE 3



Figures may not add exactly due to rounding and conversion rates.

*Average Propensity to Consume Food

**Imputed value at retail equivalent

(2)

PUBLIC POLICY IMPLICATIONS

The orientation of RCM suggests that it may be a useful tool in social policy making. Identification and analysis of the practices and problems of each LSS component serve to illumine potential alternative points of intervention, thus contributing recommendations to the formulation of public policy (Slater, 1979). The models derived from RCM exercises provide baseline data from which general forecasting or simulation models may be updated and validated. This baseline also serves as the foundation for on-going system monitoring, which is an essential component of policy and program implementation aimed at insuring optimal effectiveness and efficiency of a system in meeting specified goals. Not insignificantly, RCM can be accomplished relatively inexpensively and within the time constraints often imposed by the needs of policymakers.

CONCLUSION

This paper has demonstrated the usefulness of reverse channel mapping to the modeling of life support systems. Applications of the approach to the food systems of two nations have been described as a means of illustrating the processes by which improved models of LSS may be built. The particular strength of RCM is its capacity to incorporate a systems analysis with measures of the effect of that system, providing an empirical basis for deriving relevant transactions and their coefficients.

By combining data collected from a variety of sources, more valid and reliable models may be achieved. The resultant improved description provides a more exact data base for parameterization of general social economic models. Thus, RCM also improves the modeling process by eliminating shortcomings associated with reliance on secondary data alone.

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BEHAVIORAL ANALYSIS OF THE ROLE OF
MARKETING IN ECONOMIC DEVELOPMENT

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A coherent analytical framework relating marketing to economic development has not thus far emerged. This paper proposes that issues ignored under the prevailing institutional and managerial modes of analysis could be addressed if behavioral analysis were routinely conducted in development planning efforts. It also suggests how behavioral analysis might contribute to the emergence of an analytical framework relating marketing to economic development.

RELATION OF MARKETING TO ECONOMIC DEVELOPMENT

Economic development requires projects that produce favorable effects on distribution of total income. It is now recognized that growth in GNP does not filter down from rich to poor citizens if distorted market mechanisms bias income distribution in favor of the rich. Just because development planners emphasize policies to improve distribution of benefits and employment more equitable income distribution does not automatically follow. What is happening is that development projects yield one effect impacting on savings and consumption over time (intertemporal) and another that impacts on the distribution of income within particular regions or among particular income classes at a particular time (intratemporal).

From the standpoint of comparative marketing analysis the significant fact about income redistribution is that it is not considered in the institutional or the managerial approaches to market analysis. Hence, to see what

is needed by way of additional analysis, it is useful to examine these two approaches on which development planning of marketing activity rests so heavily. Consideration is therefore given below to the institutional approach which focuses on marketing functions and the structure required to modernize marketing facilities and to the managerial approach which emphasizes transfer of know-how from industrialized to developing countries. Neither explicitly considers such consequences of development as income redistribution, and the managerial approach also ignores significant process innovations.

The institutional approach is most often used to design marketing infrastructures including central produce and food markets, physical distribution networks to supply hungry consumers and so on. Much bilateral and multilateral technical assistance has been directed to modernizing facilities and early marketing literature focuses on these aspects of development (Bartels 1963).

Regretably much institutional analysis ignores income redistribution effects of development with saddening results. For instance, in one Near Eastern country the establishment of modern wholesale markets for fruits and vegetables contributed immensely to the enrichment of wholesalers and commission agents, but multiplied the number of landless farmers. A similar outcome resulted in an African country that used development funds to construct a modern abattoir and meat export marketing facility. Thus while there is no clear indication of the role of marketing in the distribution of gains from development, there is definite evidence that marketing is not neutral in this respect.

The managerial approach focuses on the transfer of marketing know-how from the West to the developing countries. Drucker's (1958) article in the

Journal of Marketing and Emlen's (1958) article in the Harvard Business Review are proponents of this approach. Its main weakness is the inappropriateness of Western marketing know-how based on demand management by product-innovation for nations requiring a shift of supply functions for key commodities. Developing nations are less concerned with market share improvement for particular firms than with an increase in aggregate output. Physical distribution of available supplies is the central issue, not raising market share.

Economic development takes place in response to economic incentives that reflect "process innovation" as well as in response to market opportunities linked primarily to "product innovation", the focus of much managerial marketing effort. Marketing can actively induce either or both sets of these innovations, but marketing may also induce resistances to these changes. Resistances are best studied by means of behavioral analysis of 1) import substitution and 2) process innovation. Inasmuch as these resistances constitute important constraints on the development process, their understanding provides a rationale for examining behavioral analysis.

BEHAVIORAL ANALYSIS

"Import substitution", the introduction of process innovation and procurement are three significant societal issues linking marketing to the economic development process. The overriding behavioral problem relates to changes in the degree of mutual dependence on supply sources for marketable output or for raw material input. Import substitution is the issue, arguments for which range from national pride to the desire to conserve scarce foreign exchange. Autarchy or national self sufficiency, buttressed by the unavailability of foreign currency with which to acquire imports forces a nation

to produce for itself or do without needed goods if terms of exchange for imports are deemed unacceptably high. Obviously, import oriented mechanisms are not tuned to the needs of domestic manufacturing. For these and related reasons, development planners have emphasized import substituting industrial ventures. Conflict behaviors resulting from the struggle between importers and domestic producers in developing nations are identified below by tracing characteristics of marketing flow patterns and the concomitant struggle for channel control.

The patterned flow of output

Imports conditions the pattern of flow of goods and the mechanisms which sustain and regulate this flow. The patterned flow has certain distinctive characteristics. First, importers accumulate stocks in major seaports or sometimes in a primary city, usually the capital. Several importers may engage in the building of inventories; frequently each drawing on a distinct source of supply. The "customs" offer an ideal bonded warehouse where the concentration of imports is achieved at relatively low cost. Typically, a commercial bank would furnish the importer with the necessary documentary credit, but would retain title to the goods in storage. Certain amounts of the goods may be released corresponding to payments made by the importer to the bank.

Building inventories is a cornerstone in the strategy of the importer. The crux of this strategy is to starve the market and then begin to feed it little by little as the situation becomes increasingly advantageous to the importer. Thus, a second behavioral characteristic of the patterned flow of goods is their tendency to enter the marketing system in the form of numerous trickles rather than in a few big torrents.

Characteristically, these numerous trickles are funneled through a

large number of transactions before they reach the ultimate consumer. Thus, a marked circuitry provides another characteristic of this patterned flow. Often enough, goods sold by a wholesaler to a semi-wholesaler or retailer may be totally or partially retrieved for resale to another trade intermediary.

Finally, imports, particularly the flow of foods are intentionally exempted from the matching and sorting that would best fit them for local consumption is also patterned geographically. Collecting, sorting and dispersing are often lost to consumers not living in major import centers because, generally speaking, there are very few additional breaking and bulking operations. For instance, some city wholesalers may request the importer to make direct shipments to their customers in smaller towns. Furthermore, the scope of import distribution is generally limited to urban centers where sales are easier and less costly.

Resistance to change in marketing

Marketing resistance in the case of import substitution stems basically from the struggle over channel control. This struggle is motivated by inter-distributor conflicts on the one hand, and by many-manufacturer-distributor conflicts on the other.

In an import-oriented marketing system, these conflicts are minimal since each importer usually draws on a distinct foreign source of supply. Domestic manufacturing changes this picture and raises the problem of the mutual dependence of several large distributors on one limited resource. Thus, domestic manufacturing promotes inter-distributor conflict which, in turn, triggers a desire on the part of each distributor to control his environment, i.e., the domestic manufacturer.

The introduction of domestic manufacturing brings about a significantly

greater interdependence of activities between supplier and distributor, and, subsequently, enlarges the area of conflict between the two. Scheduling presents a good example of such interdependence, since obviously production scheduling cannot be divorced completely from the distributor's rate of sale. One result of this conflict is the tendency of the distributor to attempt to control his environment and particularly the timing of activities that impinge on his operation.

Differences in goals represent another important source of manufacturer-distributor conflict. Basically the new manufacturer is interested in maximizing average return on investment over an extended period of time. This is usually achieved by means of a policy of a relatively small per unit margin coupled with a high sales turnover. Such a policy runs opposite to that of maximum profit per transaction favored by many importers.

THE CASE OF NEW TECHNOLOGY

A behavioral analysis is also useful in explaining innovation adoption or "technology transfer" from advanced to developing nations. An example of economic development involving processes rather than "products" is the introduction of "continuous production systems" as a substitute for "batch" production processes. This is considered a process innovation par excellence in developing countries. In fruit and vegetable processing the size of the "batch" (the production run) is dictated by several factors such as the cost of fuel, availability of labor, and the perishability of stocked fresh produce. Sometimes, this is expressed in terms of the volume of raw material inputs (say 300 tons of fresh tomatoes); at others it may be indicated in terms of a certain span of time (say 5 days).

The patterned flow of input

The procurement of raw material inputs in many developing countries is patterned to "batch" production. It is not tuned to the requirements of "continuous" production systems. Typically, procurement takes place at fresh produce wholesale markets. In essence, the purchases involve surplus supply of fresh produce, i.e., quantities left over after the demand requirements of city-retailers have been satisfied. This surplus can normally be disposed of only at relatively much lower prices than

(CONTINUED ON PAGE 7)

those paid by city retailers.

Surplus purchasing at wholesale markets has no stable patterns, although it is subject to some limiting factors. Obviously, one factor is price. As the cannery operates a given "profit spread", purchasing is not effected until prices drop to the level which makes that profit spread possible. Another limiting factor is the surplus quantity available at that price; it should not be less than a minimum volume (say 10 tons of fresh tomatoes) which would constitute a significant addition to a stock earmarked for "batch" processing.

Resistance to change in procurement

In contrast to "batch" processing, the main feature of a "continuous" production system is the inducement of special raw product supplies. It calls for a conscious effort to create and establish dependable supply sources, primarily through the practice of contract farming. The shift in supply sources triggers a struggle for the control of fresh produce between the processor on the one hand, and the middlemen operating in the fresh market on the other hand. A peaceful coexistence prevails under a "batch" system, but the situation alters significantly under a "continuous" system, again in view of the emerging mutual dependence of processor and middlemen upon on-farm supply sources.

Often enough, the processor is at a disadvantage in the battle for the control over raw material supply sources. Historically, middlemen and commission agents succeed in developing strong tie-in arrangements with supply sources based on credit, transport, and selling facilities. Sometimes the bonds have ethnic and social features. Forward buying is not unusual. Therefore, the processor is often confronted with "Captive" supply sources. Contract farming becomes exceedingly difficult, since

"one of the characteristic features of a captive supplier is his disinclination to seek new alternatives through active search" (March and Simon 1958).

Even the development of alternative supply sources is met with difficulties. The cannery and the new suppliers may have choices that are not mutually consistent. Rival middlemen may infuse differences in goals or in perceptions or both, which tend to trigger and foster conflict. For example, they may force a price rise on the fresh produce market with the purpose of adversely affecting the perceptions of producers who have contracted to supply a cannery with its raw product requirements.

Faced with this dilemma, some canneries in the developing countries resort to backward integration. Huge investments are sunk into farm activities. The capital structure is seriously burdened. Business gets increasingly complicated. Responsibility is diffused and control is often lost.

Development increases mutual dependence on a limited resource and invokes a great interdependence of timing activities, both of which are closely linked to process innovation. These interdependencies generate pressures on all marketing channel members to control both the allocation of resources and the timing of activities. Thus the behavioral problems of resource allocation decisions and scheduling are critical to effective implementation of development programs. In fact given a national commitment to development and the capital required, the seemingly major engineering problems such as lack of roads, storage and transportation equipment and other elements of infrastructure such as media networks are technical issues more readily surmounted than the behavioral issues

of resource allocation and scheduling authority.

The behavioral skills of negotiation and conflict resolution are essential to develop the participation in marketing decisions that require joint decisions among members of existing or newly formed marketing channels.

Joint decision-making is not easy as the experiences of many developing nations attest. Middlemen in traditional channels exhibit great skill in resisting organizational change, ranging from subtle political and legal strategies to outright warfare. That results in the collapse of development projects. Confrontation behavior reflects a lack of understanding of rewards available from the development process. Few recognize that "process innovation" can embrace short run accommodation and adaptation and long run evolution rather than elimination of existing marketing organizations. While often more demanding than the introduction of new processes, organizations and foreign values, the task of accommodation is more rewarding than the "extinction" that faces many outmoded and inefficient distribution practices in nations committed to development.

Summary and Conclusions

Behavioral analysis that focuses on innovations in such channel processes as resource allocation and scheduling decisions by means of negotiation and conflict resolution theory can supplement institutional analysis and managerial analysis in development planning. Because behavioral analysis inquires specifically about the consequences of behavior, it considers social externalities commonly ignored in institutional analysis. Since it also focuses on process innovation rather than the product innovation of primary concern in managerial analysis focussed on "market

share", behavioral analysis tackles directly the resource allocation and scheduling problems of process innovation.

Lacking a coherent framework for relating marketing concepts to the process of economic development, all three methods of analysis must be recommended as necessary to gain an understanding of the effects of development on the distribution of gains that in the past have made the rich richer and the poor poorer in developing countries. None of these methods is sufficient to be used without the others' in development planning.

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MARKETING: THE CATALYST IN ECONOMIC DEVELOPMENT PROCESS

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INTRODUCTION

In order to understand underdevelopment one has to examine its main features and the reasons for its persistence over time to provide a proper perspective for further analysis. Under development is characterized differently in different countries, and research in Economic Development (ED) has established a wide range of varying reasons for lack of, or slow rate of economic or industrial growth over time. The presence of a set of characteristics and lack of others are viewed to underly under development. Although they manifest themselves differently, all emanate from lack of efficiency, undefined or poorly defined direction (or orientation) and poor organization. The main thesis of this paper is therefore to show:

1) That the traditional literature on economic and economic development has failed to clearly specify a universally applicable process to lead to growth and development and to stop or to slow down the rampant extent and gap of under development, as shown in Table 1, and;

2) That the modern marketing, both at macro and micro levels, is a potent vehicle that can organize, orient, augment and accelerate economic development.

The objective of this paper is not to refute or to deny the role of well-established "factors" in the process of development, as they are reviewed in the next section, but instead it is to advocate that marketing as a concept, doctrine, or theory possesses enhancing characteristics that can improve the

process of development regardless of the country's state of current factor endowments.

The paper is comprised of two main parts. In part I, corresponding with the former part of the paper's main thesis, the role of so called ED "factors" is reviewed first. A critical review and comparison of economic principles which have lead to the classical and current ED theories with that of marketing are presented next. The effect of "trade" and "second best" theories on ED completes the first part.

In part II, contributions of marketing to ED along with the shortcomings of some selective ED theories are briefly analyzed and brought to perspective. A model based on marketing principles is proposed and its ED enhancing features are analyzed. Last section of Part II houses summary and concluding notes of this paper..

Table 1

The Development Gap, by Groups of Countries

	Lower				Upper	
	Low-Income Countries	Middle-Income Countries	Middle-Income Countries	High-Income Countries	Developing Countries	Developed Countries
Mid-1979 Population (millions)	1,131.7	1,443.6	597.0	1,146.4	3,244.5	1,074.2
Average Per Capita GNP (1979)	\$176	\$454	\$1,347	\$6,300	\$597	\$6,468
Average POLI ¹	41	64	69	93	57	94
Average Birth Rate (per 1,000)	38	27	35	16	32	15
Average Death Rate (per 1,000)	16	10	9	9	12	9
Average Life Expectancy (years)	49	60	61	72	56	72
Average Infant Mortality Rate (per 1,000 live births)	132	75	85	21	96	18
Average Literacy Rate	35%	56%	71%	97%	52%	99%
Average per capita Education Expenditures	\$4	\$12	\$41	\$280	\$18	\$286
Average per capita Military Expenditures	\$5	\$28	\$52	\$297	\$29	\$300

¹Each country's POLI (Physical Quality of Life Index) is based on an average of life expectancy at age one, infant mortality, and literacy.

Source: John Sewell, The United States and World Development: Agenda for 1980, Praeger Publishers New York, N.Y., 1980.

PART I

Literature on economic development is numerous, massive and well beyond the scope of this paper. Excellent surveys (Huhn & Matthew, 1964 & 1970), textbook treatment (Burmeister and Dohel, 1970) and theoretical expositions (Solow, 1970; Scitovsky, 1956 & 1962) are presented elsewhere. Despite the volume of work in the area, there is no strong conceptual concensus as to what constitutes under development, what are the main causes and why it persists over time. There is strong agreement, however, that the process of economic development is not an accidental phenomenon (Balasa, 1980).

1.1 The Role of "Factors" in Economic Development

Several "factors" are reported to have played an influential role in economic development in some of the developing countries and the following summary presents the main arguments. To avoid conveying a universal applicability the exceptions are pointed out as well.

i. Country or Effective Market Size: Size of the country will influence the country's potential for exploiting the economies of scale, and the extent to which competition can be adopted in the early stages of growth. Inward or woutward orientation of economic development policy, however, interacts strongly with the size factor. An inward orientation in a small country may unduly postpone economic reform and hence cause relative under development. Conversely, extreme outward orientation (e.g. transforming the industrial structure toward export platform) nulifies the country's small domestic size factor. The small countries of Benelux and Scandinavia have traditionally been free traders. They have and are still enjoying a high living standard. In contrast, Brazil, the developing country with one of the largest domestic markets turned inward in mid 1960, and that led to her slower growth rate. India still continues to pursue her inward orientation (Balassa, 1980;

Havrylyshyn, 1981; Kuznets, 1960; Science Council of Canada, 1979).

ii. Natural Resource Endowment: A country's endowment of natural resources can influence its economic growth and industrialization by providing it with raw materials and natural resources for further processing or exports. This, in turn can generate additional investible funds for capital formation and economic development. A rich endowment, however, must be viewed as a mixed blessing. For it may originally increase wage rate in the endowed industries which can generally spread to the rest of the economy and push production costs higher than otherwise. Exportation of endowed resources can positively influence the balance of payment which may cause an upward pressure on the exchange rate and price of exports. This can slow further future growth rates. Economy's increasing dependence on its endowment may impede a broadly based economic development. As compared to bauxite, iron ore, etc. the case of oil exporting countries is very special and has resulted in limited diversification in these countries. Nevertheless, oil earnings have adversely affected the international competitiveness of manufacturing industries in Venezuela and Mexico (Chenery, 1964; Clague and Tanzi, 1972).

iii. Favourable Geographical Location: Although the advantages of location in terms of easy access to other markets cannot be denied, regional integration of closely located markets in Latin America led to a high cost area which subsequently contributed to slow economic growth rate in the region.

While economic development of Denmark, the Netherlands, and Norway are attributed to their favourable geographical location and access to nearby European markets for manufactured products, isolated countries like Japan, Taiwan and South Korea have done very well with respect to manufacturing exports, notwithstanding their distant locations. (Bruno, 1962; Viner, 1950; Mead, 1955).¹

iv. Preferential Ties to Large Industrial Countries: Preferential ties are supposed to create preferential access to large industrial markets for exports, imports and foreign direct investment.

Former French colonies in Africa are reported to have benefited from their special status in France and in turn with the European common market. Japan, Taiwan, Korea and Singapore have not enjoyed preferential access to U.S. or European markets, despite heavy U.S. foreign direct investment in the latter three countries (Bruno, 1960).²

Regional integration, however, increases reachable markets and is similar to larger national markets. Literature on the effects of regional integration on ED is mostly positive. (For example see Gehrels & Johnston, 1955; Dell, 1966; Mead, 1955; Scitovsky, 1962; Viner, 1950).

v. Political and Social Conditions: The effect of a country's political and social conditions on its economic development can be only assessed in retrospect. There are successful and unsuccessful economies under democratic and dictatorship. These conditions are rather broad and often used for post rationalization of events and the evidence is extremely mixed; nevertheless a country's political and social conditions are known to be highly influential in economic development (Clark, 1956; Deutsch, 1961).

vi. Educational Background: Educational level and background in a country are reported to be one of the major factors contributing to economic development. Education is also viewed as investment in human capital, although it may not become productive in the short run or in the usual span of time for non educational investments. Most highly developed and developing countries enjoy a high level of education. Exceptional cases, however, are Chile and Uruguay in the 1960s. These countries exhibited poor economic growth rate, despite their high educational levels as measured by Harbison-

Myers education index (Harbison & Myers, 1964). The effect of education on ED is studied extensively as it can be witnessed by the works of Clague and Tnazi, 1972; Clark, 1956; Hagen, 1957; Harbison and Myer, 1964-65; Harbison, Maruhnic and Resnick, 1970; Gutman, 1965; Schults, 1965.

vii. Foreign Aid: Contribution of foreign aid to economic development is mixed at best. On one hand, the proponents of foreign aid argue that, foreign aid should be treated as massive infusion of capital, food, equipment and know-how to the recipient countries that could not generate them domestically, and therefore it must have a positive and stimulative effect. While this may be the case in theory, reality does not support is strongly. The difficulty is due to the fact that one cannot observe or measure a country's own economic development in the absence of aid for the purpose of comparison.

Opponents of foreign aid, on the other hand, argue that aid has become an instrument of doner's foreign policy and more often than not, has a political as opposed to or instead of economic impact. Misallocation of resources, increased cost of industrial production and unwanted or less desirable technology (e.g. inappropriate technology) are among the undesirable features that are attributed to the "tying" of the aid. In some cases, foreign aid has offset military spending. This is certainly the case for Korea, Taiwan and some of the Central American countries. The literature on aid and ED is massive, mixed and inconclusive. For example see Adelman and Chenery, 1966; Chenery and Carter, 1973; Griffin and Enos, 1970; Hirschman and Bird, 1968; Papenek, 1972.

viii. Foreign Direct Investment: Foreign direct investment (FDI) is accepted as a contributing factor to economic development (Calvet, 1981; Papenek, 1972; Pearson, 1969, Weisskoff, 1972). Theories of foreign direct investment cover a vast overlapping area with that of economic development

and address many common issues that are well beyond the scope of this paper.³ While FDI under tariff protection, import substitution as compared to export manufacturing, and inward as opposed to outward orientation in a country belongs to economic development policy formulation; their mirror image counterparts--response of investors to those policies--belong to the theory of FDI. The policy decision of allowing foreign direct investment to accomplish economic development goals rests with recipient countries; but effective control of FDI does not appear to be within their reach. The adoption of different policies have led to different set of responses from the foreign investors. Nevertheless, there is a general agreement on the positive and short run effects of FDI (e.g. in terms of income, employment, transfer and diffusion of technology, balance of payment) on economic development in the host country. The long run effects of FDI, however, do not enjoy the same support.

ix. Other Factors: Factors affecting ED are not limited to the above list. Contributions of other factors--anywhere from the availability of entrepreneurial talent and risk taking capacity to capital formation and savings rates--are extensively examined elsewhere (for example see Balasa, 1980; Houthakker, 1961 & 1965; Landau, 1971; Lluch and Powell, 1973; Mikessel, 1966; Mikesell and Zinser, 1973; Williamson, 1972).

1.1.1 "Factors" in Perspective

Except for the effects of foreign direct investment, the other "factors" share the following shortcomings:

1. There is no clear cut and universal chain of relationships between the "factors" and ED. In other words a universally accepted causal relation is not established.

2. For those instances that a chain of vents, emanating from one factor, or a combination of factors, and leading to ED is identified in a country, replicability or transferability are not studied.

3. There are no general agreements on the necessary and sufficient conditions for ED; and within that context, there is no consensus whether the presence of a factor is absolutely necessary. Conversely, there is no agreement or evidence as to how their absence hinders the process of development. Indeed, exceptions as pointed out in the previous pages reduce the strength of any general statement in favor of any single factor.

4. It is difficult to see how the presence or absence of a factor in a society can act as the motivating force in pushing the people to proceed with the process of ED, if they are not inclined to do so to begin with.

5. It is equally difficult to conceive as to how the presence of certain factors can replace the old with a new economic process which is a more organized and efficient than before.

This set of ambiguities have not helped to economic planners and the process of ED. Economic planners, are indeed faced with a dilemma as to how to proceed with regard to these factors.

FDI as a contributing element to the process of ED stands alone. Multinational corporations (MNEs) are responsible for the bulk of FDI and their international market orientation plays a substantial role in their decisions and in turn on their impact on ED. This orientation forces them to at least be as efficient and as competitive as their competitors. These efficiencies coupled with the strength of their advanced technological and managerial expertise further helps them to organize more effectively.

The combined effects of market orientation, competitiveness and effective organization enhances their capabilities in generating income and value and

hence ED. In fact there is strong evidence supporting the relative effectiveness of MNE's marketing expertise and practice, as compared to their indigenous companies, despite the latter's familiarity with the local environment and generally entrenched positions. MNEs are also reported to be more effective, than their counterparts in dealing with standard products (e.g. shoes) with or without FDI, or in common marketing activities such as distribution, retailing and sales management. Two case examples help to illustrate the above arguments.

Bata Shoes is a Canadian based MNE that has operation in more than 92 countries. According to Sonja Bata, Director of Bata Limited, Bata strongly believes in operating as a good corporate citizen using its strong managerial, technological and above all marketing expertise to bring to the local market place much sought after footwear products. It uses standard technology, and locally supplied labour and raw materials. However, Bata's phenomenal success must be attributed to its skills in organizing and controlling procurement, production, efficient delivery through the channels of distribution, and effective sales management. The sheer force of its marketing orientation--in satisfying the local population for footwear at an affordable cost--has overhauled footwear industries in most locations that it operates in.

Given the well-established disadvantages of "foreignness" one should ask as to why an MNE producing a standard product and using standard technology with local supplies is at all able to operate across variety of countries that have had a long tradition of shoemaking? The answer must clearly lie as Sonja Bata professes, in Bata's marketing and market oriented management (Bata, 1981, pp. 484-488).

The case of Sears in Mexico (Wood, 1953) and Latin America (Fritch, 1962) with no production of its own, is just another case of strong marketing orientation and marketing management. Admittedly, Sears' operations are for profits and the company has never denied that. However, in pursuit of reasonable profits, Sears was forced to erect several systems (marketing subsystems) to support its eventual retailing.

They are, for example:

1. An efficient system of distribution from the local producers to Sears distribution centers and finally to Sears retailing stores;
2. A supportive financial system to accomplish a threefold task: First to support production; second to make possible the distribution of goods and third to support the final sales to customer by term credit; and finally;
3. The actual marketing--that is a system by which wants, needs and desires of local customers are integrated into production and distribution decisions.

1.1.2 Function of Marketing in Economic Development

What Sears and Bata have accomplished are by no means anything extraordinary. They are typical examples of the basic and integrated marketing at work. Their contribution to ED can be broken down to three basic functions; which are:

1. The function of crystalizing and identifying incipient or latent needs (Keegan, 1980, p. 21) and wants to effective demand for maximum productive effectiveness and efficiency.
2. The function of organizing, and perhaps optimizing, production and distribution purposefully to yeild maximum consumer or social satisfaction in terms of providing adequate delivery to the market place at low cost to

maximize the utility of time, place and minimize price;

3. The function of discriminating and evaluating possibilities, to give rewards and punishments to those who contribute to excellence and the slothful, respectively. The latter includes protected and pseudo-monopolies and those who want to benefit while they refuse to contribute to the well being of the society or their constituency.

1.2 Classical Economics and Economic Development Theories in Perspective

Contrary to the enhancing role of marketing in economic development, most classical economics⁴ and economic development theories have not accorded marketing its deserving role and place. Marketing expenditures are viewed as unnecessary and at times harmful expense, especially where resources are scarce or badly constrained--which is the case in most developing countries. The chain of arguments leading to the above view is rather simplistic, somewhat misleading, and above all does not account for non quantifiable aspects of marketing (i.e. organizing aspects).

The problem of under development is mainly viewed as too little supply and too much demand. Any activity which can stimulate demand further, therefore should not be allowed. Marketing expenditures and by implication marketing activity fall into the above category. Additionally, classical economics has also argued that, increasing current consumption decreases current savings by the same amount, and that in turn results in lower investment; and therefore, to the extent that current consumption is stimulated (e.g. by marketing), investmentⁱⁿ productive capacity and hence ED is curtailed. Investment was also viewed as the necessary pillar for expanding capacity and increasing supply. Once supply was increased, Say's Law was invoked and ED task was considered as accomplished.

According to Say "Supply creates its own demand" (Harrod, 1948, p. 68). When more supply is forthcoming, more demand, more income and in turn more savings would be generated. Since increased savings would facilitate investment, more investment and in turn increased supply would materialize. Therefore, a cycle would be completed and economic growth would result. In short, it was only important to increase the supply as "invisible hand" would take care of the rest.

In his writings Malthus (Harrod, 1948) took exception to this view. The Say's Law remained unchallenged, but he saw a sense of unbalance and argued that, although high savings were desired, little consumption could result in under payment to and under utilization of capital which was not conducive to further economic development. To bring about full factor employment (or full utilization of all resources)--a condition which is necessary for long range economic growth and development--Malthus argued that there had to exist a sense of balance between consumption and savings.

The Great Depression of the 1930s brought a serious challenge to classical economics and its supply management concept even in the highly developed countries. Keynes argued that the main determinant of full factor employment, and by extension economic growth, was not supply but it is demand. Since aggregate consumption is the major component of aggregate demand, Keynes suggested that the key to full employment was indeed consumption and within that was the slope of consumption function (or marginal propensity to consume) (Keynes, 1963, pp. 23-35; pp. 245-254).

Also, in a Harrod-Domar type of economic growth models an economy's highest "steady state" growth level depends on optimum consumption-saving ratio (Solow, 1970, pp. 8-16; Harrod, 1948, pp. 34-55). In other words, too little or too much consumption can lead to a growth rate less than what

could otherwise be achieved optimally and smoothly.⁵

Higgins distinguished between current and future consumption. He pointed out that not enough of resources are utilized efficiently for investment purposes, and furthermore current consumption had to be deferred in favor of generating current investment to lead to increased future consumption. Given all the inefficiencies in the LDCs system, optimal growth would be negatively affected, if current consumption could not be deferred.

Economic development writings and their recommendation, of which the above is a representative sample of, suffered from some short falls. Some of them are listed below.

i. The Role of wealth and Foreign Capital: Capital formation was linked strictly to current savings and the potential role of a nation's wealth and injection of foreign investment (as opposed to domestic) was not seriously considered. The accumulated wealth of a nation can be very strong force in development. Before domestic wealth or foreign investment can play an active or effective role in economic development process however, a stable primary demand must exist or should be created. Strong current demand is an incentive for further investment in further satisfying that demand by bringing more supplies to the market place. The possibility of creating or stimulating incipient (Keegan, 1980) demand is the prerequisite to investment for bringing about the necessary productive capacity and future supplies. Classical economics ignored these factors. Of equal importance is the fact that certain levels of consumption must be kept to generate enough income to finance the purchases of current supplies and generate current savings. Otherwise, not only will there not be enough of capital formation (due to low current savings), but also the past investment would remain under paid, under utilized and not fully accounted for. Then, it should be clear that,

without adequate demand management and control--which are among the basic functions of marketing--supply oriented theories stand a slim chance of success in accomplishing their ED objectives.

An efficient response to a market demand, especially where previously under utilized resources will be employed, can only enhance the development process. In trying to satisfy market demand as efficiently as possible, the modern theory of marketing is a great stimulative force in economic development. This can be further explained in two steps. First, due to the more efficient utilization of resources, waste is minimized and a greater aggregate supply becomes feasible. Stated differently, more efficient use of resources frees up some of the constrained resources and makes higher growth rates more feasible. Second, even when aggregate supply is not increased a higher level of aggregate social welfare, in terms of higher aggregate level of social utility (or social satisfaction) is entirely feasible, as marketers respond to consumers wants and needs as opposed to forcing them to buy limited available supplies.

ii. The Role of Aggregation and Lack of Comparative Advantage in ED:

As mentioned earlier, most ED theories are macro in nature and make use of highly aggregated concepts. Extensive use of aggregation causes problems of its own. For example, the relative effects of stimulating aggregate investment with that of encouraging specific investment can be compared. At one extreme, increased aggregate investment may come about, because of investment in a comparatively disadvantageous sector, leading to long run misallocation and trouble. At the other extreme, no increase may result from relative investment in comparatively advantageous sector of the economy at the expense of disinvestment (or low investment) in another comparatively disadvantageous sector. To draw the argument to its logical conclusion, one can assume that the amount of investment and disinvestment could be

equal, such that the final level of aggregate investment would remain the same. Therefore, while aggregate investment has remained the same, due to more comparatively advantageous (or efficient) use of investment resources, production or the society has gained. Aggregation usually masks distributional and compositional effects and ED theories are still dealing with such problems. In fact comparisons such as the above are not permissible under classical ED theories mainly due to their aggregate nature. In contrast, strengthening demand (or primary demand) for a comparatively advantageous product (or commodity) to lead to higher consumption (and in turn production and supplies) and away from another comparatively disadvantageous product (or service) to lead to lower demand and supplies is what competitive marketing, in its discriminating function, is based on and can accomplish rather well. In a parato-optimal sense, the resulting re-organization is bound to be more efficient, and hence a naturally stronger stimulant to ED, especially when resources are highly scared or badly constrained (i.e. the case of most DCs).

To summarize, classical ED theories have ignored marketing's potential role in ED, in spite of the fact that marketing in general and macro marketing in particular act as catalyst (Slater, 1976, p. 3) in accomplishing similar goals.⁶ Aggregate and macro nature of ED theories have masked sectoral or micro problems and as a result the possibility of partial, sectoral or regional growth (as compared to the whole country) are not considered.

1.3 Theories of Trade and Second Best in Perspective

In a two-country, two-commodity model, Richardo (1959) and Jhon Stewart Mills (1900) were among the pioneers to show the indisputable economic benefits of trade, resulting in higher consumption and social welfare in the short run and leading to economic growth in the longer run. Other trade

economists (Stöpler and Samulson, etc.) have expanded the above simple model and shown that the benefits accrue across the board to all countries concerned and at no cost to the trading partners, mainly due to reorganization of trading economies. Due to the simplifying assumptions or restriction in different models (e.g. perfect competition, costless transportation, free information, etc.) however, the marketing aspects of trade were left out (but not ignored). Although trade theory is based on, and is strongly advocating for trade between nations or a nation and the international markets, trade literature did not and still does not address itself to the mechanics of conducting trade. Many questions still remain unanswered. That is, for example, where are those international markets? How does a nation find them? How is success, in terms of buyer satisfaction, guaranteed? How foreign commodities are actually sold? How should be a foreign good (or service) introduced in remote lands? and so on.

Today, international marketing as a branch of marketing provides partial answers to some of the questions. Although all principles and covenants of trade are observed, international marketing is more concerned with private trading (i.e. trade between private companies internationally) as opposed to state trading or trade between nations. It also responds much more effectively to marketing aspects as opposed to trading aspects of international trade.

Nations have long recognized the benefits of trade and its potential impact on economic development as an stimulating force, or as a factor which allows a nation to transcend beyond the peculiarities of its own markets (i.e. in terms of size or other characteristics) to finance its further growth. But active international marketing still remain highly untapped and under developed. The reasons for this phenomenon are two fold.

i. Marketing in general and international marketing in particular is not traditionally viewed as an essential task in the less developed or

developing countries, especially at the governmental level. This view, coupled with lack of marketing expertise has led most developing countries to adopt economic growth policies which are deficient in their marketing content and therefore lack the efficiency of market orientation. In exporting, for example which requires active marketing on open international markets, they find themselves inadequately prepared. As a result, these countries have not enjoyed success in their exporting and naturally exporting (as a component of trade and investment) has failed to play a major role in the economic development of a large number of DCs.

ii. Failure or lack of success in exporting and the resulting balance of payments pressures has forced DCs to turn inwardly. In so doing, nation states have restricted access to their markets in variety of ways (e.g. tariffs, quotas and other non tariff barriers) and have protected their import competing industries. These industries often lack strong comparative advantage and mostly operate from a comparatively disadvantageous position. As a result, and mainly due to their deficient marketing expertises, most DCs have protected, subsidized and encouraged their import competing industries (possessing no to weak comparative advantage) under variety of different programs, while their previous and current export industries (with mild to very strong comparative advantage) are left to loose their competitive marketing position in the international and later in the home markets.

Not only would a strong marketing orientation on the part of DC governments would have stopped a gradual drift toward inward orientation, but also it could have reversed the process in favour of outward orientation and open marketing internationally.

Additionally, a large set of "second best" theories with their limited scope (i.e. protection of internal markets) and somewhat inward orientation

have diverted the DCs evolutionary path of economic development from competitive marketing on open international markets to rather closed and controlled home environment--where marketing activities are regulated and are to some extent restrained.

In summary, due to the extensive marketing requirement of an outwardly oriented growth coupled with low to no priority position of marketing function in ED theories and theories of second best, the ED policy of many DCs has taken an inwardly oriented direction. Since the latter can be managed much easier than the former, fits into nationalistic feelings and policies, and above all, does not conflict with ED planner's traditional contempt and suspicion for marketing, marketing's potential contribution to ED remains vastly underutilized. While marketing could have and still can enhance, reorganize and accelerate EDs process, combination of above factors has been and still is impeding its adaptation.⁷

PART II

2.1 Role of Marketing in Economic Development in Perspective

The decade of 1950s must be marked as the beginning of organized efforts in systematic study of marketing's role in ED.⁸ Holton studied Puerto Rico's marketing system and showed that marketing activities had an impact on ED (1953). Fisher's study of marketing structure and economic development (1954) where he found that tertiary production and employment tend to grow faster than economic growth rate provided a corollary to often suggest improvements to traditional channels of distribution and started a new strand of research in marketing of services and role of tertiary employment in ED. Bauer's study of trade patterns in formerly British West Africa (1953), Bauer and Yamey's subsequent research on the economic impact of marketing reform on ED (1954), and Baldwin's study of cocoa markets in western Nigeria (1954) started a new series of and marketing--as opposed to economic--oriented studies. Bauer and Yanney followed up their research by studying under development (1957). Drucker's keynote speech on the role of marketing in ED (1958) culminated the pioneering efforts of marketers in that decade. Definitive studies like that of Galbraith and Holton in Puerto Rico (1953) had shown substantial inefficiency and waste in the marketing system which adversely affected the process of ED. For example, they illustrated that, a redesigning of the system could result in savings of up to 19% in the island's food bill (Galbraith, Holton, 1953, pp. 177-198). By implication, the resulting extra purchasing power or capital formation associated with savings of such magnitude could be a strong stimulant to Ed process. That is, the corresponding income generating process--when the savings are spent--through income multiplier mechanism, or the readily available capital base--when the savings are not spent--through

investment multiplier process--would have had unparalleled effects, that no one concerned with ED could afford to ignore.

In the next two decades (1960 & 1970) ED related literature in marketing flourished. Every aspect of the work was scrutinized. A comprehensive review of the literature is well beyond the scope of this paper. A short review of a selective list of articles however is presented below.

At a more macro, theoretical, and general level the role and impact of markets and marketing on economic development continued to be examined extensively (see Fredrich, 1960; Hirsch, 1960a; Abbot, 1962; Boulding, 1962; Gallagher, 1962; Abbot, 1963; Bonnan & Eicher, 1963; Mintz, 1964; Moyer, 1965; Miller, 1967, Slater, 1969; Dholakia & Firat, 1976; Kriesberg, 1976; Slater, 1976 & 1979; Mentzer & Samli, 1981; Nason & White, 1981).

Study of regional or national markets -- similar to the work of Bauer, Galbraith and Holton, and Baldwin the 1950s, continued in 1960s and 1970s. The following list is a small sample: Hakima, 1960; Bose, 1961; Bohnan & Dalton, 1962; Papenek, 1962; Erickson, 1963; Baker, 1965, Blair, 1965; Demas, 1965; Haring, 1965; Lamont, 1965; Slater, 1965; Banerjee, 1966; Slater, 1969; Riley, et al, 1960, 1973; Slater, 1978; Nason & White, 1981.

Research on the sectoral aspect also proceed unimpededly. Most studies adopted a combined regional and sectoral emphasis and marketing of food and agriculture dominated these set of studies. For example see: Hakima, 1960; Bose, 1961; Boyd et al, 1961; Hirsch, 1961(b); Dewey, 1961; Erickson, 1963; Van Niewenhuijze, 1963; Baker, 1965; Blair, 1965; Demas, 1965; Haring, 1965; Lamont, 1965; Slater, 1965; Banerjee, 1966; Firth, 1966; Slater, 1969 (a & b); Riley et al, 1970; Riley and Harrison, 1973; Austin, 1974; Slater, 1975, 1978 & 1979.

The new discipline of comparative marketing was not formally and explicitly associated with the role and impact of marketing on ED. Its implications, however, mainly due to explicit comparison of marketing systems, subsystems or processes across countries (with different levels of economic growth and development) had an indirect impact. Boddewyn's (1981) comprehensive review of comparative marketing literature has addressed most of the pertinent issues and in the interest of time and space they will not be repeated here. One point however, must be noted that most comparative marketing studies are deficient in capturing and taking into account the context of their comparison, as the forefathers of comparative marketing (e.g. Bartels, 1963 and 1968) had advised and advocated.⁹

Research on the impact of functional and practical aspects of marketing on ED proceeded in a parallel fashion. These studies covered a wide range-- anywhere from all encompassing dimensions (e.g. marketing in India) to a set of more narrowly defined factors (e.g. social determinants of marketing)-- in a region and or a sector. For a sample of this series of works see: Boyd, El-Sherbini and Sherif, 1961; Bohannon and Dalton, 1962; Papenek, 1962;

Dean, 1963; Erickson, 1963; McCarthy, 1963; Skinner, 1964; Haring, 1965; Lamont, 1965; Banerjee, 1966; Firth, 1966; Slater, 1969(b); Wilson, 1973, Mena, 1974; Dholakia and Firat, 1976.

On the theoretical and normative front, research proceeded and many new topics were studied. The following works is a representative sample: Hirsch, 1960; Gallagher, 1962; Bartels, 1963; Collins & Holton, 1963; Burnet, 1964; Firth and Yamey, 1964; Rostow, 1964; Moyer, 1965; Liander et al 1967; Mulvihill, 1967; Paauw, 1970; Krisberg, 1971; Medford, 1973; Slater, 1977 and Slater et al, 1977a and 1977b; Slater and Jenkins, 1979; Mentzer and Samli, 1981.

In summary, marketing oriented studies of ED addressed specific regional and sectoral aspects of ED as well as theoretical and normative dimensions. Marketing orientation of these studies, however, distinguished them from economically oriented studies (or theories) and lead to the study of a different set of problems and resulted in varying recommendations. A comparison of differences are presented below:

2.2 Marketing Oriented vs Economic Oriented Studies of ED

Comparison of marketing oriented studies of economic development with that of economic oriented studies reveals the former's important advantages.

i. Organizational and Informational Function: Developing countries suffer from massive inorganization mainly due to lack of pertinent information as Drucker states:

"(The) essential aspect of underdeveloped economy and the factor, the absence of which keeps it under developed, is the inability to organize economic effort and energies... to convert self-limiting static system into creative, self-generating organic growth (1958, p. 255)."

Marketing creates a "network, through which information can flow among

the many firm units forming interrelated activities necessary to produce the final consumer product" (Higgins, 1959, p. 769) or achieve its final industrial objectives. Farm planting or industrial manufacturing decisions for example, cannot be made in vacuum. Pertinent information is required. This information must convey the requirements of other links in production-distribution channel. To provide such vitally required information to different members of the production-distribution, an information network and hence an organization, anywhere from highly formal and structured to informal and implicit, is necessary. Once the organization and information network are in place, optimal production-distribution decisions can be taken and hence much of waste and inefficiencies can be avoided.

ii. Entrepreneurial Talent and Capital Accumulation: Marketing orientation in production-distribution network in developing countries can stimulate entrepreneurial talent and accumulation of capital. In a study of 250 leading Pakistan's industrialist who controlled 50% of Pakistan's industrial capacity, Papenek found that a full 45% of them moved into industry directly from trading (i.e. distribution) occupations (1962). Furthermore, Papenek reported that 69% of all capital involved in industrial production was controlled by these (and other) ex-traders, some of whom were formerly involved in export-import and internal trading. In the study of west African traders, Bauer and Yamey came to similar conclusions:

Almost every successful manufacturing enterprise was started by (former) merchants (Bauer & Yamey, 1957, p. 263).

Bauer's and Yamey's similar study in Malaya re-confirmed their earlier findings. Most of the Pakistani industrials, as Papenek reported, brought into industry the missing ingredient--i.e. their marketing experience, entrepreneurial talent, and accumulated capital from trading. As these studies show, efficient marketing intermediaries have been instrumental in

ED and that there is no reason to believe that their positive contribution ceases in the later stages of economic development. It is very important to note that, this is contrary to popular belief, that marketing intermediaries are "parasites" that "drag" and hamper economic development.

iii. Overhaul of Outmoded Pricing System: Development of marketing can play a profound role in over-hauling the traditional or outmoded system of pricing. Most developing countries seem to be plagued with primitive price schedules based primarily on their perceived inelastic demand and supply schedules. In the absence of an efficient system of production-distribution to equalize spot and regional shortages, abundances, and disparities, local producers feel and then act as "natural monopolies." Pseudo-monopolistic behavior and its associated distortions in the pricing system, can be harmful to economic development for it fails to allocate the scarce resources efficiently. It is also bound to sub-optimize consumer and societal satisfaction and value.

Small market size may at times make it necessary to allow for protected (or regulated) monopoly producers. But an efficient and wide-spread system of distribution can help to limit the extent of monopolistic practices and hence minimize the harmful effects in the society. In the absence of production monopolies, an efficient system of production-distribution can force prices close to their competitive level. This in turn, helps to optimize the allocation of resources, rewards the efficient producer-distributor, and punishes the inefficient. Therefore, this process is capable of rationalizing production, increasing the system's overall efficiency and/or productivity and above all it can maximize social welfare (in terms material and psychic satisfaction).

iv. Systematic Incentives for Innovativeness, Inventions & Efficiency:

Economic development in DCs are hampered by massive class structure and traditional or social rigidities. An efficient system of marketing provides incentives for people to break away from those traditional molds and social barriers. Market mechanism provides tangible incentives which can reward successful risk takers and innovators. Market mechanism also offers clear and inescapable opportunities for breaking out of the socially lower status jobs (e.g. middleman) and joining the ranks of higher status positions (e.g. industrialist or businessman). Bauer (1954), Bauer and Yamey (1957) and Higgins (1959) provide numerous examples of such opportunities and incentives which emanated directly from marketing orientation. The attraction and reachability of higher status positions ought to be the ultimate driving force for people to try to achieve them (e.g. the case of Pakistani intermediaries).

v. Flexibility in Scale: An integrated system of production, distribution and marketing can be carried out at any level and does not require massive industrial or social projects. Marketing concepts are as applicable to small or private projects as they are to large and/or public ones, but their focus and their constituency will be obviously different. In small projects, a firm or an entrepreneur must focus on wants and needs (or desires) of a small market or market segment. In large projects, investors (public or private) may consider the welfare or satisfaction of much larger market segment, the whole market, or even the whole country (e.g. case of social overhead capital investments). In all cases the principles remain the same--they are the basic triple functions of marketing: crystalizing demand, guiding production, and creating discrimination possibilities (see section 1, p. 11-12).

vi. Promotes Small Enterprises and Identifies Potential ED Agents:

Marketing can be the most accessible "multiplier" of entrepreneurial and managerial activities in the under developed areas. The act of economic development is not a force of nature. As Balassa put it, "accident de parcours," mainly due to the use inappropriate policies, can easily stop it (1980). To initiate, promote and manage the process of ED and to avoid "accident de parcours," entrepreneurial and managerial talent and expertise are badly needed; and that is precisely one of the most under developed resources in the under developed areas. As Peter Drucker (1958, p. 256) put it "economic development is the result of the action, the purposeful, responsible, risk-taking action of men as entrepreneurs and managers." He further wrote:

"Certainly it is the entrepreneur and manager who alone can convey to the people of these countries an understanding of what economic development means and how it can be achieved (p. 256)."

This is a profound statement in recognizing that, the people of the developing countries are integral part of the process. Indeed they must feel that economic progress is for them and must be done by them. By implication then, ED planners should be able to integrate people and markets into the process and allow them to actively incorporate themselves into and support or influence the course of development, as opposed to becoming the mere subjects of an economic development experiment.

Marketing as an underlying structure, philosophy, or orientation for economic development does not suffer from the above mentioned difficulties. But instead, marketing system can be employed as a catalyst to force all economic agents--small or large and private or public--to adopt a marketing orientated strategy. Adoption of this orientation accomplishes 3 major tasks: 1) results in maximal satisfaction of, and value for their respective

constituencies (e.g. consumers, industries, markets, or the whole country); 2) guides production and distribution in minimizing waste and inefficiency, and above all; 3) encourages the continuation of the system, by rewarding the efficient and productive and punishes the inefficient and slothful. Hence, the more efficient agents, in a parato-optimal sense, are rewarded relatively highly, which motivates them to have even higher efficiencies and/or greater productivities; and the inefficient are forced eventually to leave the market place. On the consumption side, consumers try to maximize their material (e.g. better goods and services), social (e.g. higher prestige or social class), psychic (e.g. lower cognitive dissonance) welfare and value by working harder to acquire their high priority (in terms of attractiveness) items. Hirschman has the following succinct observation:

"...Some products of modern industrial civilization--flashlights, radios, bicycles, or beer--are always found sufficiently attractive to make people stop hoarding, restrict traditional consumption, work harder, or produce more for the market to acquire them." (1958, p. 53).

Hence, if producers can find those "sufficiently attractive" goods and services and bring them to the right market place at right (reasonably affordable) price, workers work harder and/or produce more to acquire them, which in turn at an aggregate level, results in a higher level of aggregate demand, to be satisfied by higher aggregate supply simultaneously or gradually.

2.3 Organizing for Economic Development

One of the fundamental questions facing development economist or planner is how to organize for economic development. Contrary to voluminous literature on ED the field does not present a blue print or a set of procedures for economic development. In 1958 Hirschman wrote:

"economists have not been able to construct, much less agree on a single and unbroken chain of causes and effects that would neatly explain the transition from 'under development' to development." (p. 50).

Not much seems to have changed. They still suffer from a myopic view of demand, market and exchange mechanism in developing countries. Dholakia and Firat (1976) emphasize that demand and purchasing behaviour in under developed countries are not homogeneous, means for exchange of information to facilitate difference are inadequate and marketing activities are still out moded and inefficinet. Slater came to similar conclusion that, lack of pertinent information, poor transportation facilities, and underdeveloped distribution systems are still plaguing the countries (1967). In addition to the above problems, many questions still remain unanswered. For example, which sector must be developed first? Should one sector be developed to the level of self sufficiency or should it go beyond? Should the benefits of exporting from the more developed sectors be channeled to finance the revitalization of the other sectors (or the rest of the country)? Should a contry adopt an "inward" or "outward" orientation? What are the pre-requisites of outward orientation? And so on. The balance of this paper does not provide direct answers to the above questions. Instead, it proposes a new marketing oriented paradigm for organizing ED efforts. The paradigm attempts to avoid the short falls of economic modelling, on one hand, and incorporates all the 6 advantages of a marketing oriented process (i.e. section 2.2 pp. 22-28) on the other hand.

2.3.1 A Marketing Oriented Model for Economic Development: A Strategic Model

The process of economic development is bound to affect a society's culture and way of life. The newly created opportunities create upward mobility and run against the fabrics of traditional values and already established social classes, and along with them, traditional market segments go through a state of flux and transition. The whole society gradually adopts

a new system of values and in a sense crosses its old culture. Therefore a case can be made that the cross cultural model (e.g. Sheth & Sethi, 1977) of market (or consumer) behaviour is more applicable than otherwise. Cultural change does not occur in isolation, other dimensions of the socio-economic and political life change along with it. The applicability of a cross cultural model increases when one recognizes inevitable evolution of socio-political dimensions along with cultural and economic change. This has strong implications for market segmentation and market oriented models. For example, in comparison with "social class" segmentation, in which products are neutral and segments static, the implications of cross cultural models are far reaching. In fact in a dynamic and changing society social classes are not static and products do not remain necessarily neutral.

A three category classification is suggested by Sheth and Sethi, namely: Consumption Substitution, New Want Creating, and Income Adding product categories.

In consumption substitution category, variety and choice are added to the market place. Consumer is already familiar with the basic product class and may only derive added marginal utility and satisfaction from substituting one variety for another.

In new want creating category, at least two sub-categories must be noted: complementary products, and products that satisfy new contingencies. For the former, possession and use of the product improves and enhances an existing product or process, and to that extent this category of products enhance the productivity of existing products or production processes and result in improved output (higher or better, however defined). Hence, production and use of this product category must be encouraged. For the latter subcategory, however, as Sheth and Sethi put it:

The purchase is made because a new need has arisen due to change in buyer's social situation. (p. 384)

The possession and use of this type of product may indeed cause a change in buyer's perceived social class (or situation). "Prestige and status" products also fall in this category. Marketing oriented economic planners should be rather careful with respect to this category, for some luxury or non-essential products may qualify as prestige and status enhancing products.

Income adding product category "includes all products that may have positive effect on the buyer's income" and the income may subsequently affect the consumer's "standing in the social milieu" (Sheth and Sethi, p. 385).

The model suggested here is similar to, in principle, that of Sheth and Sethi's (1977) model of cross cultural consumer behaviour. It proposes a 3 category classification of products for the process of ED; for the main question in a marketing oriented ED is: which products or classes of products should be encouraged and which ones should be discouraged or taxed to the point commercial infeasibility. The categories are:

1. Positively Charged Goods & Services (P.C.G.&S.): This category of products can enhance ED's processes unequivocally (e.g. fertilizers, farm machinery, power tools, etc.).
2. Neutrally Charged Goods or Services (N.C.G.&S.): This class of products have no positive or harmful effects on ED (e.g. manual tools, small house hold appliances, etc.).
3. Negatively Charged Goods or Services (N.C.G.&S.): This set of products can potentially (but not necessarily) impede ED (e.g. purely luxurious and unnecessary goods).

Two points must be noted:

1. That goods and services includes industrial products and processes as well as consumer goods and services.

2. That the above 3 category classification is intended to capture the two extreme and mid-point of a continuous product continuum.

By a logical extension, the population of a developing country can be divided to several segments. At one extreme, for example, a segment would be highly upwardly mobile or with high potential for achievement and upward mobility. The other extreme could represent that segment of the population that has very little desire for achieving higher standards (however defined). Stated differently, the population is viewed as a continuous continuum in terms of desire for achievement and upward mobility can be segmented along that continuum with the above two extremes.

For highest efficiency and maximal results, highly positively charged G & S (P.C.G.&S.) can be allocated to the segment with the highest potential for achievement and upward mobility, and so on. This allocation, however, may further skew the distribution of income, social status etc. in favor one segment (e.g. rich and well educated and privileged). In fact, this problem, similar to any allocation problem, will highly depend upon the goals and objective of allocating agency or allocating process (for discussion of goals and objective of ED, for example, see Slater, 1976).

Assuming that the population segment with the highest propensity to move upwardly is the most desired candidate for possession, production, management and/or control of highly positively charged goods and services, the regulating agency (e.g. planning agency, department of finance, taxation agency, etc.) can play an influential role in implementing and controlling such an allocation. For example the regulating agency can encourage the production and distribution of positively charged goods and services

available on one hand; and on the other hand, can help to increase people's propensity to move upwardly. In order to achieve the goals of economic development plan, and have an orderly transitional process, the government may decide to proceed in stages and exercise its goal induced policies, in terms of developing a set of priorities with respect to allocation of positively charged products and different segments of the population.

A system of incentives to create industries which produce positively charged products, for example, should help the process of economic development. With respect to agriculture, machinery and fertilizer industries are good examples. Another set of incentives to encourage and perhaps force the farmers to use or increase the use of fertilizers (up to the optimal level) is an example of policies for increasing economic upward mobility. Combination of both programs (i.e. production of positively charged goods and services, and incentives for higher usage) should result in higher agricultural production, higher productivity per farm (or farmer), higher purchasing power leading to higher material well being for farmers, and perhaps a stimulative force to the whole society. Sooner or later, "demonstration effect" is bound to take hold (Shapiro, 1965, p. 416). When that happens, even if government had already discontinued the process, all those segments who have been possessing a high propensity to move upwardly will find those goods and services that can help them to indeed achieve upward movement. A typical and simplified example, in flow chart, for strategic planning of such a systematic economic development process is given in Figure 1a and 1b.

SUMMARY AND CONCLUDING NOTES

At the outset, this paper examined the reasons as to why marketing still remains badly neglected in the ED process. The potent role of marketing in ED was then explored. Traditional requisite "factors" for economic development were considered and the reason for production (or supply side) orientation of ED theories which has led to a production oriented ED in developing countries were examined. Advantages of market (or demand side) orientation and what marketing theory is capable of accomplishing was reviewed in some depth. A process of organizing for more efficient and accelerated economic development, in which user's satisfaction and value play a central role, was put forward and its advantages were explored. In analogy and comparison with the evolution of marketing and management in highly developed countries, a plan of action for growth and development is proposed. Indeed if the evolutionary path of marketing management practices in the highly developed countries has any bearing on the problem of ED, it must be the movement from supply side orientation to demand and market orientation and finally to a strategic orientation to combine all influential elements including demand and supply. In short, the outmoded supply and inward orientation (Balassa, 1980) ED should be combined selectively and eventually replaced by outward and strategic ED orientation.

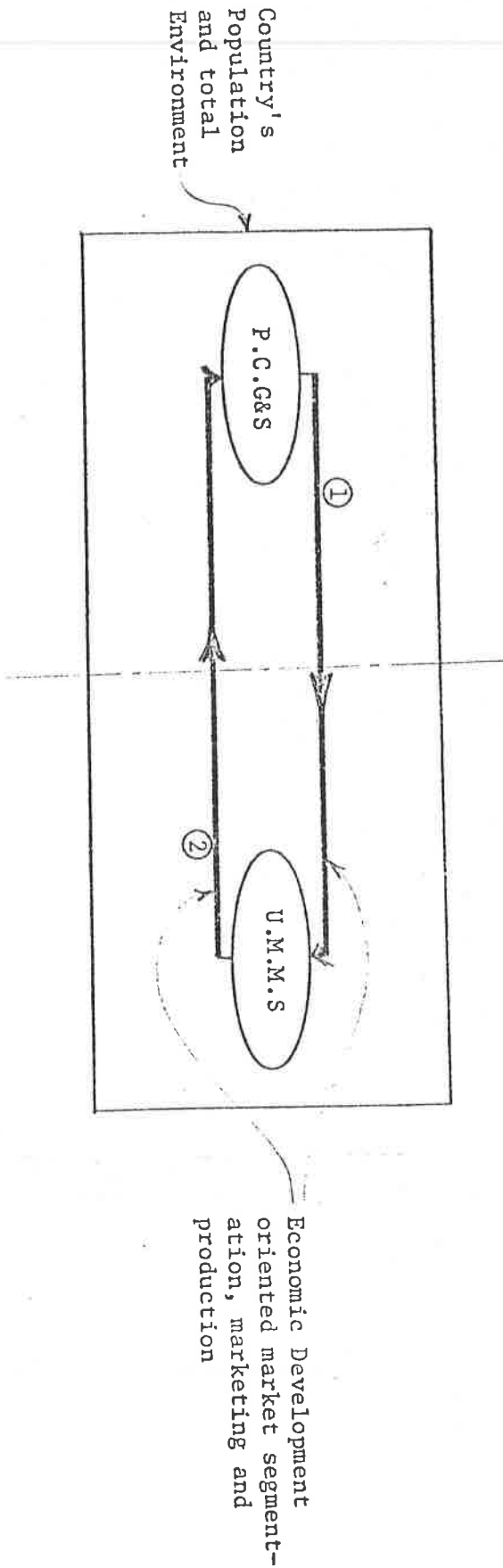
Although all the building blocks and requirements for implementing a marketing oriented system of ED are currently available; but they must be put in their proper perspective. For example, developing countries can (or should) offer their army of manual labor force and utilized resources; multinational and indigenous enterprises should utilize their advanced technology and comparatively advantageous products as well as their access to international markets and marketing expertise; and finally all countries

concerned should try to reduce their over-burdening barriers, taxes, and environmentally induced risks which have collectively taxed developing countries much heavier than the developed countries. A recent movement toward formalizing World Product Mandating (Etemad, 1982) is a clear manifestation of a movement in that direction in the industrialized countries.

Finally, the paper fulfills its objective of showing that marketing is a potent instrument for economic development, and in that regard, marketing has been and still is the missing link or the catalyst in economic development. A marketing oriented model for economic development is proposed and its economic development policy implications are explored at the end.

Figure 1A

MAIN PROCESS: THE WORKING OF ECONOMIC DEVELOPMENT MARKETING



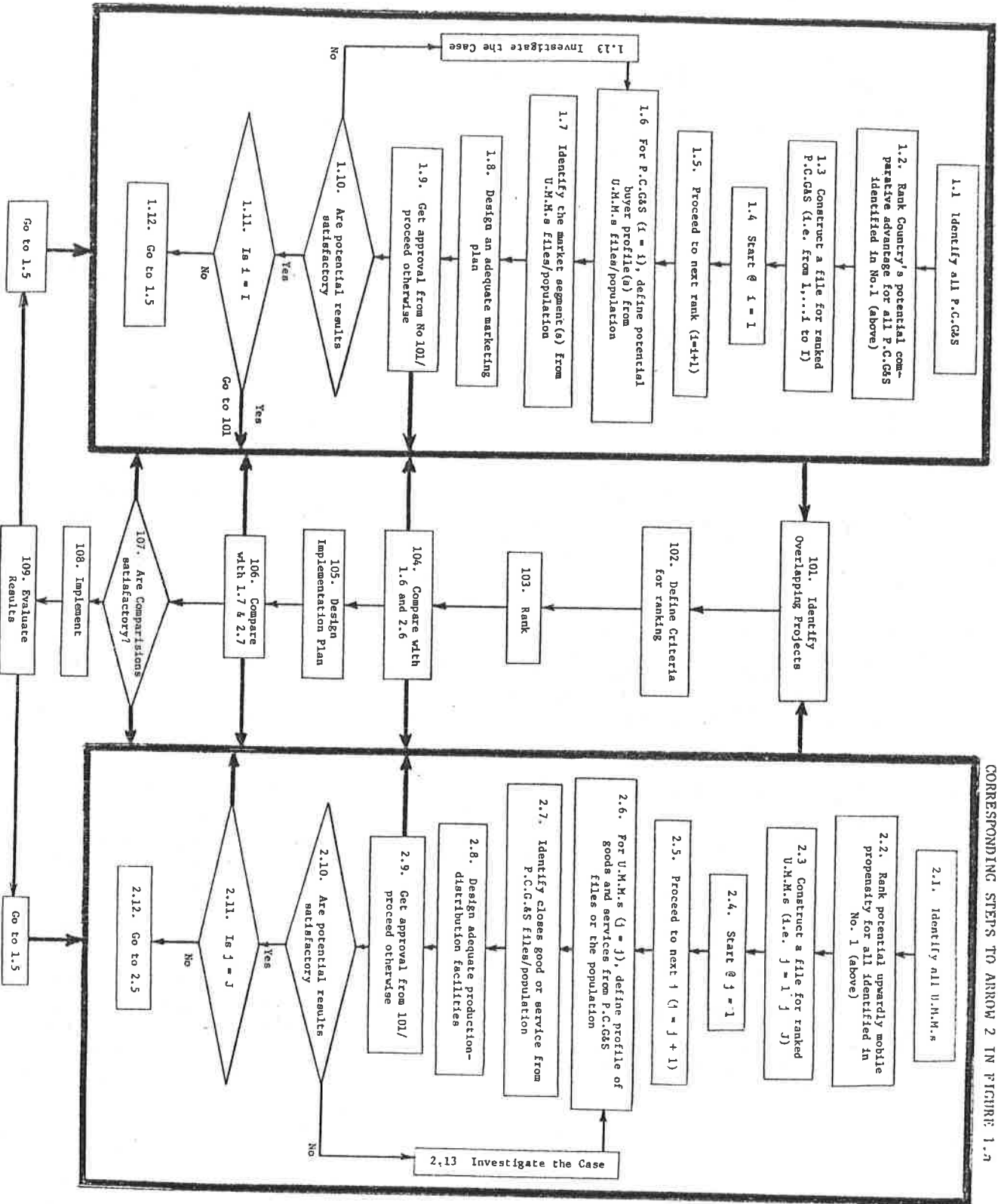
Legend: P.C.G&C = Positive Charged Goods & Services (goods & services that enhance ED)

U.M.M.S = Upwardly Mobile Market Segments (Market segments that enjoy potentially high propensity to move upwardly)

FIGURE 1.b PLANNING FLOW CHART FOR MARKETING ORIENTED ECONOMIC DEVELOPMENT

CORRESPONDING STEPS TO ARROW 1 IN FIGURE 1.a

CORRESPONDING STEPS TO ARROW 2 IN FIGURE 1.a



P.C.G&S = Positive Charged Goods and Services (Goods and services that enhance ED)

U.M.M.S. = Upwardly Mobile Market Segments (market segments that enjoy potentially high propensity to move upwardly)

FOOTNOTES

¹ Advantages of geographical location can be clearly understood by studying countries at the crossroads of Trade and Commerce throughout the history. A more modern version is captured by membership in a common market, for example in EEC. For detailed advantage of custom unions see Jacob Viner, 1950; and Mead, James E., The Theory of Custom Unions, North Holland Publishing company, 1955, Amsterdam. pp. 35-41.

² Old colonial ties are examples of preferential ties. Old British colonies still receive a preferential treatment in the commonwealth countries. Israel is also a recipient of U.S. preferential treatment. See Bruno, 1962.

³ The effects of foreign direct investment on ED overlap with that of the theory of FDI and Multinational firms. For a window to this massive literature see a review paper by L. Calvet, 1981.

⁴ For example see writings of Jhon Steward Mills, David Richardo and Adam Smith.

⁵ Optimal and smooth refer to the highest steady state growth rate that an economy can reach. The concept of steady state is very important; for an economy may momentarily reach a higher than optimal rate to be followed by a much lower rate later. Also, an economy may experience a cyclical growth rate. An economic development process which can allow for a smooth and optimal growth rate is the most ideal program. For further details see Solow, pp. 18-26.

⁶ The following quotation expresses the idea of catalyst very well:
"...Marketing channels affect the distribution of share of income and influence the marginal efficiency of capital in the manner of chemical catalyst."
(Slater, 1976, p. 3).

⁷ For a more detailed discussion of reasons as to why ED planners have not adapted marketing as the "catalyst" in their economic developmental plans see Sethi, S.P. and Etemad, H. "Marketing: The Missing Link in Economic Development" presented at International Marketing Congress, the Netherlands School of Business, Summer 1982.

⁸ 1950 as starting point for a selective review of literature carries no special significance; and is not intended to create the impression that the decade of 1950 is the true beginning of such works. Review of earlier literature is presented elsewhere. For example see Dixon, 1980.

⁹ For a more detailed discussion of this and related issues see Etemad 1981 and 1982.

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SEVENTH ANNUAL MACROMARKETING SEMINAR

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MARKETING AND ECONOMIC DEVELOPMENT

- the case of division of labor.

Marketing's contribution to economic development is a major issue within Macro Marketing. In this article it is argued, that in order to grasp the essential of marketing's relationship to economic development, departure must be taken in the concept of division of labor. Division of labor takes place in society to increase productivity and thereby accomplish economic development. At the same time, division of labor creates gaps between consumption and production, - gaps which must be closed by establishing a marketing system. Thus, if we understand the societal rationale and the dynamics of division of labor, then we have found the cradle for a theory of marketing and economic development.

The article is divided into three parts. Part one establishes "a Macro Marketing Formula", made up of five societal dimensions, which together constitutes the role of marketing in society. Part two establishes the social rationale of marketing and clarifies the concept division of labor. Part three discusses a selected number of theories of division of labor and their marketing implications.

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- the case of division of labor.

by

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1. Introduction.

One of the major issues within the field of Macro Marketing is the contribution marketing activity/systems can make to economic development. All too often this issue has merely been stated as an important issue, emphasizing only the great role marketing could/ought to play in economic development in the 3rd World countries. (Drucker 1958, Bartels 1977, and for an early review of the issue, see Shapiro 1965).

I have earlier (Sørensen 1980) suggested the issue to be dealt with by looking at 1) the costs of marketing (=marketing efficiency), 2) the adaptation of marketing to changes in production and consumption (=marketing adaptability, and 3) the marketing system as a change agent (=marketing stimulation of production and consumption). Altogether very few studies have been made, and the majority of them fall within the first of the above three categories.

Within the framework of a theory of economic stages, Preston (1968), e.g. has related the marketing system to the level of economic development by looking at the number of sales workers in different countries, and Bucklin (1972) deduces, from a set of assertions, the average operating costs of retailing systems in the course of economic growth. In these studies, a certain level of economic development is assumed and the cost and efficiency of the marketing system is dealt with.

Very few studies of the dynamic interplay between production/demand and the marketing system have been done, i.e. studies emphasizing the adaptiveness and stimulating effects of the marketing system. Except-

tions are rather trivial cases of ethnocentric analysis' of the marketing system in developing countries, suggesting the whole issue to be settled by transferring "the marketing concept" to the developing countries (Glade et al. 1970). Of more progressive studies Dixon (1980) gives an example of how the marketing system stimulates the use of the traditional three factors of production. Harrison et al. (1974) give an example of how changes in the marketing system would decrease costs of marketing and stimulate production. And Lawson (1969) gives an example of, how the urban marketing system in Ghana adapts to increased urbanization and income.

Although these and other studies of the Western as well as of the developing countries are individually valuable, they are not pointing out the essence of marketing and economic development. We need to have a concept, model, theory, paradigm, or whatever we call it, which grasps the essential of economic development and marketing at the same time.

To this end, it is argued in this article, that the concept of division of labour might serve the purpose of being such a common platform.

This concept was not invented but developed by Adam Smith, and he related it explicitly to economic development. In fact, division of labor together with capital accumulation (within a market economy) was his very formula for economic development.

But what about the second requirement to the concept - its direct bearing on marketing? This requirement is fulfilled fully. Division of labor means creating gaps between consumption and production, or more generally, between productive activities, and one can hardly grasp the essence of marketing better than defining

it as a gap filler or gap closer (and in its more aggressive or stimulating role: a gap creator). The role of marketing within society is, therefore, closely related to the extent of division of labor, i.e. to the "laws" governing the establishment and elimination of gaps between consumption and production.

This article is an attempt to explore the concept of division of labor as a step towards understanding the relationship between marketing and economic development.

First, however, we will deal more generally with societal dimensions, which affect the role of marketing in society, summarizing these dimensions into what has been termed the macro marketing formula.

2. A Functional Definition of Marketing.

The discussion to follow is based on the following understanding of what functions constitute marketing in society:

Marketing is the social activity, concerned with matching production and needs within a society, characterized by division of labor. To close the "gap" between production and needs, four functions must be performed:

1. Needs must be uncovered/made conscious and communicated to the point of production.
 2. The information on needs must be transformed into a product (and production) formula.
 3. The produced goods must be allocated among users.
 4. The produced goods must be distributed to the users.
- Any society with division of labor must establish institutions¹⁾ to carry out these four functions, and it is obvious, that the

higher the degree of specialization, the more important the marketing institutions become.

At this definitional stage, marketing is a universal phenomenon i.e. both market economies and centrally planned economies are covered as long as they consciously or unconsciously "use" division of labor to carry their production activities through.

3. The Macro Marketing Formula - in Brief.

Traditionally, the marketing activity in society has been measured as the actual marketing expenditures, as a share of GNP, as the number of sales workers, and by productivity measures. Although in no way unambiguous, these one-dimensional measures are well established and linked to specific theoretical thinking.

The Macro Marketing Formula, presented below, is not measuring marketing activity at societal level as directly as the above measures. Instead it is looking at the structure of society, and from there the role of marketing is derived.

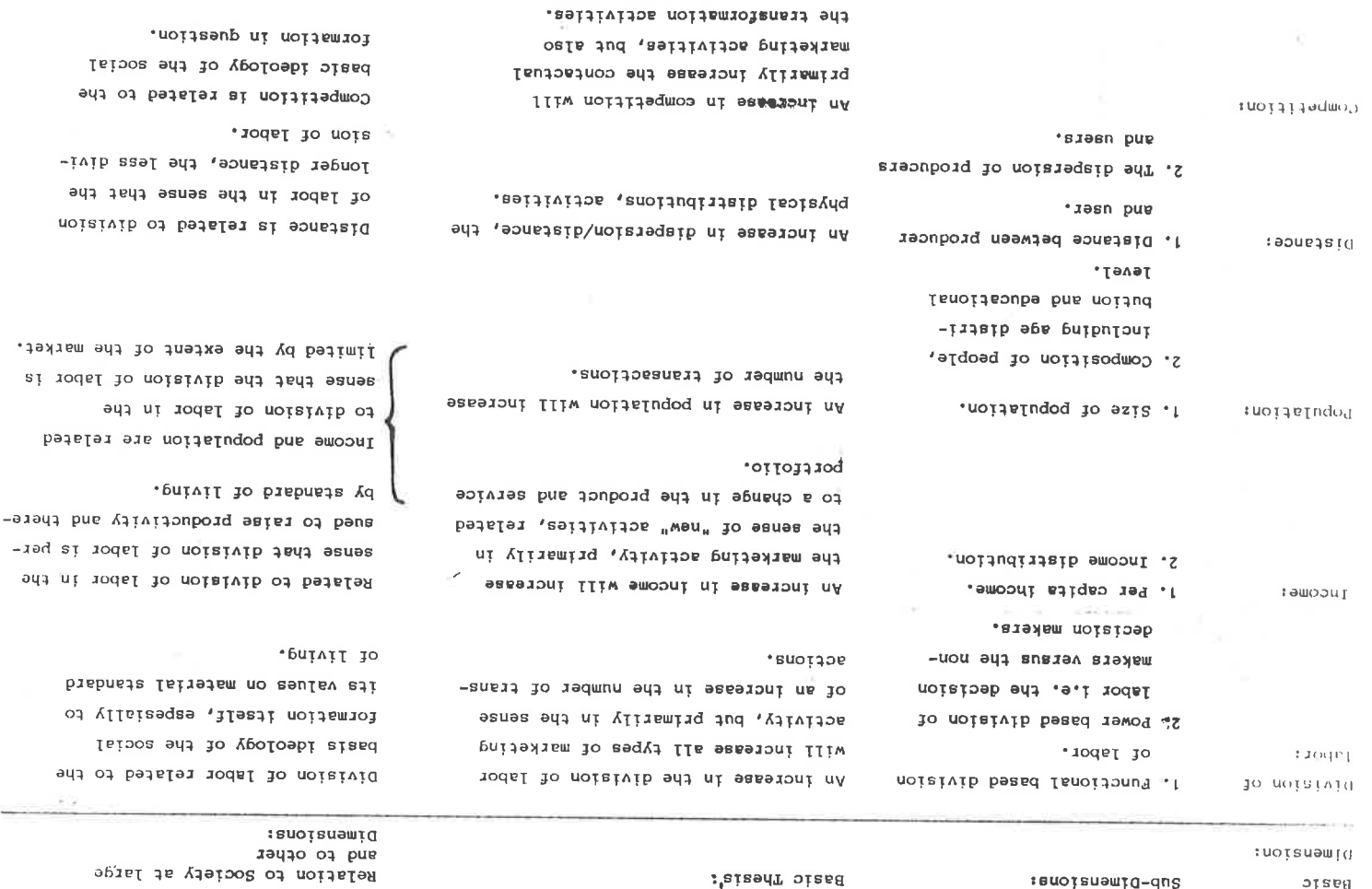
The Macro Marketing Formula states marketing as a function of a set of societal dimensions. The formula can symbolically be written as follows:

$$M_s = f(x_1, x_2, x_3, \dots, x_n)$$

where M_s stands for marketing activity at societal level, and x for various dimensions of society, e.g. the degree of division of labor.

This formula is a very rough and unshading way of presenting the role of marketing in society. It is, for example, questionable, if marketing can be viewed purely as an unilateral function of specific societal dimensions. A dialectic view seems more appropriate. Secondly, the above form says nothing about, how the explana-

Figure 1: The Macro Marketing Formula.



Relation to Society at large and to other Dimensions:

Division of labor related to the basic ideology of the social formation itself, especially to its values on material standard of living.

Related to division of labor in the sense that division of labor is perceived to raise productivity and therefore standard of living.

Income and population are related to division of labor in the sense that the division of labor is limited by the extent of the market.

Distance is related to division of labor in the sense that the longer distance, the less division of labor.

Competition is related to the basic ideology of the social formation in question.

Marketing = f(Division of labor,

- Population,
- Distance,
- Income, and
- Competition)

i.e. marketing activities on the societal level are described by means of five dimensions. When these dimensions are known for any given society at a certain point in time, we are able to draw what we might term "a macro marketing map" of that society. 2)

The five factors are elaborated upon in figure 1.

As already stated, division of labor is far the most important of the five factors, and in fact the factor upon which to establish a macro marketing theory.

To grasp the importance of that factor to marketing, we might depart from the present tendency towards vertical integration and horizontal concentration. This tendency is "a threat" to marketing and thereby to marketing theorists, because each time an integration takes place, marketing activity and thereby the role of marketing is reduced, i.e. company turnover is converted to internal transfer, sales people are turned into administrative clerks and logistical specialists, etc.

More basically than this issue is the answer to the question: how was this integration made possible in the first place? Where and

why was the production process (sub)divided, making it necessary to establish institutional devices to coordinate the production activities throughout the chain of production. In other words, what is the rationale behind division of labor, and thereby the rationale of marketing ?

When we know the "laws" governing division of labor, we have established a cradle for a marketing theory, but only a cradle, because, as we shall see, far from all divided labor gives rise to marketing activity, and we shall also see, that division of labor is not just a simple technical break down of the production process.

The second factor entering the Macro Marketing Formula is the population. Given the degree of labor, we expect total marketing activity to be more or less proportional to the size of the population. Apart from this obviousity, Adam Smith formulated a thesis relating population or rather market size to division of labor as follows: The division of labor is limited by the extent of the market. The population, if synonymous with the market, thus gives us an upper limit for the degree of division of labor, and thereby by an upper limit for the extent of marketing activity.³⁾

Distance is the third factor in the Macro Marketing Formula. For a given level of division of labor, marketing activity, primarily in the sense of physical distribution, will increase with the degree of dispersion of production and consumption. The degree of urbanism is one important aspect of this locational dimension, but spatial dimensions of economic activity have many more aspects and is a well developed field, especially within Economic Geography. Further, income or standard of living is part of the Macro Mar-

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keting Formula. Assuming again a given level of division of labor, we expect more marketing activity, the higher the income. Not just do we expect quantitatively more marketing, but foremost a qualitative change, because of a relative change in the consumption basket, or better: the product portfolio of society. This change requires qualitative changes in the marketing system. Income is closely related to the concept of division of labor. This relationship could be stated as follows: The rationale behind division of labor is to increase labor productivity and thereby increase income or standard of living. We might, therefore, consider to omit income of the formula, as it seems to be covered by the degree of labor concept. The relationship is, however, not that straightforward. As we have shown already, productivity might be increased by reversing the division of labor, i.e. by integration. Further, income, better than division of labor, points out the qualitative changes which must take place in the marketing system in the course of economic growth.

The fifth component of the formula is the degree of competition with the general relationship "the more competition the more marketing activity. At the one extreme we have the centrally planned economy, where competition is absent, and at the other extreme we have the market economy with its fierce competition and few public regulations, or better, with regulations, which aim at nursing competition.

The absence of competitive promotional activities is the most visible feature of the planned economy, but it is perhaps not the feature, which accounts for the major decline in marketing activity. We might mention the degree of innovative activity, the type of products innovated, the promotional activity to develop demand etc.

As competition connotes a way of organizing society, the competitive dimension is difficult to deal with in the Macro Marketing Formula. By accepting competition, i.e. the market economy, we have to a large extent determined the former four factors. Because of the dynamics of the capitalist society, we have determined the way division of labor evolves; we have determined that we want urban and rural areas; we have determined that the income distribution is uneven, and we have determined the size of the population, i.e. the family structure and its ability to reproduce itself.

To include the competition factor in the Macro Marketing Formula we, therefore, will have to restrict it to consist of the activities which would be calculated to find the difference in marketing activities between fierce and less fierce competition; i.e. a distinction is made between competition (the narrow dimension) and the market economy, or better, the capitalist society. This means that these activities are put at zero, when competition is totally absent.

One other factor, namely the balance between demand and supply, was under consideration as being part of the Macro Marketing Formula, but rejected in the end for the following reason:

In case demand is higher than supply, we speak of seller's market, and in case supply is higher than demand, we talk of a situation where sellers scramble for customers, i.e. we have a buyer's market. The question is, to what extent will the degree of marketing activity be different in the two situations?

In the Western tradition of calculating the economic activity of society, marketing activity will increase with the degree of a

buyer's market, because the marketing activities of the sellers will increase to attract customers. In case the producers are not able to attract customers, they will be left with idle capacity or, if it is not possible to stop production, we will experience a surplus (or queues) of commodities, like for example butter and cheese in case of the Common Market.

The opposite is the case in a seller's market situation, and as the marketing activities undertaken by the consumers are not calculated and incorporated in the national accounts, a buyer's market will appear as a marketing "heavy" market.

This might be a false picture of the real situation. When goods are scarce, users/consumers scramble for goods, spending long hours in queues and travelling long distances to fetch goods. A seller's market might, therefore, from a societal point of view, use more resources to close the gaps, than a buyer's market. At present, however, we know too little about this relationship, and until a clarification has been made, the factor is omitted from the formula.

Along the same lines of reasoning, it could be pointed out that the marketing activities will increase the more the production system is ahead of the demand system, i.e. product innovations have taken place before consumers/users are psychologically or otherwise ready to use them. This is, for example, the case of rural development in many developing countries.⁴⁾

With these last remarks we have established a framework for discussing marketing activity on the societal level. Each of the five dimensions and especially their mutual relationship need further elaborations⁵⁾ and theoretical development, but from the brief

discussion, one dimension - the division of labor - seems to be more important than the others. The remaining part of this article will, therefore, be devoted to exploring this concept.

4. Marketing and Division of Labor - Conceptual Clarifications.

4.1. The Social Rationale of Marketing.

Departing from the concept of division of labor, marketing becomes the social science concerned with closing gaps, caused by division of labor.

In more details the relationship between the concept of division of labor and the concept of marketing is as follows:

The magnitude of the gap is directly related to the degree of division of labor in the social formation under study. Thus, the concept of marketing is closely related to the concept of division of labour.

The rationale behind the concept of division of labor is the ability to produce more by means of fewer human resources. Thus, the concept of division of labor is directly related to the concept of labor productivity.

Finally, the concept of labor productivity is directly related to the human endeavour to improve man's material standard of living. In essence then, marketing is a consequence of human endeavours to improve the material well being of man, thereby contributing to the fulfilment of the aspirations of society.

Accepting this - in no way new - rationale or reasoning as the birth of the concept of marketing, the following theses can be deduced:

Firstly, as marketing has evolved as a consequence of human endeavours to improve their lot, man possesses no natural tendencies to barter and bargain, i.e. the marketing concept cannot be deduced directly from the human nature, but is socially determined⁶⁾.

Secondly, marketing is not a socially necessary function, i.e. a function necessary for society to survive. Division of labor is chosen for society to prosper, i.e. marketing constitutes a social choice.

Thirdly, marketing is a social waste. Marketing activities/costs can only be justified if the costs are lower than the concomitant gains from the increase in production/labor productivity caused by an increase in division of labor.⁷⁾

Fourthly, the justification for marketing is material. Nonmaterial consequences of an increase in the division of labour and thereby an increase in marketing costs/activities are not taken into account. Alienation caused by a wide division of labor is not a direct part of marketing. Thus, the material gains derived from an increase in labor productivity must exceed or be equal to the costs of marketing, as well as justify non-material consequences of extensive division of labor.⁸⁾

Fifthly, the above reasoning is looking at division of labor from a purely economic point of view. Apart from the economic rationale of division of labor, it has a political one as well. We shall return to that issue and here only point out that the division of labor in any society is also a mirror of the social forces in that society. The division of labor between those who decide, and those who adapt to the decisions of others, is clear evidence to the political strings of the concept of division of labor. We might

A supply based definition of marketing, e.g. a Marxist understanding of Capitalism, would look as follows:

1. Uncover business accumulation needs.
2. Transform the needs into product formulas.
3. Persuade/manipulate users to buy the commodities (=allocation).
4. Distribute the commodities to the users.

Having given the social rationale behind marketing and the functions to be performed, it is time to take one more step towards the realistic worlds, i.e. creating the institutions to perform the above functions.

As soon as this step is taken, however, things get complicated. Although marketing as a gap filler in principle is neutral - just being the messenger/mediator between production and consumptions, social institutions are not. As soon as the marketing functions are institutionalized, the institutions get a life of their own, and their functions must be interpreted within a larger social context. And as already pointed out, one way of looking at the marketing institutions is from the point of view of being the "sector" where potential social conflicts materialize and the "sector" for reconciliation - at least in the short run, i.e. until the basic reasons, or the conflict has been removed. Another way is the functional one, where the marketing system is instrumental in making the production and demand run smoothly.

4.2. Demarcating Marketing.

It was pointed out on page 6 that the concept of division of labor formed the cradle of a marketing theory. It was also pointed out

even think of social formations, where division of labor is institutionalized in such a way, that it is detrimental to the endeavors to improve man's material standard of living.⁹⁾ In this situation marketing is clearly a political tool, used to exploit and reconcile between the various groups of society.

Sixthly, as division of labor creates social interdependence, and increases the need of social interaction beyond what can be determined from the understanding of man as a social creature, the marketing system becomes a key "sector" in overcoming the division of labor, when society "decides" to have coordination problems instead of a low level of material standard of living. This might seem obvious, but as much marketing literature is preoccupied with (simple) buying-selling situations, it is essential to stress the macro or systemic task of marketing, because with an increase in division of labor, social dependency increases, and even smaller interruptions in the flows within the marketing system might have severe consequences, (especially when stocks are economized to the lowest level). Thus, the demand for a smooth functioning of the marketing system is increased manifold, when division of labor is extensive, compared to a situation where produce is marketed surpluses in a basically subsistence economy.

Seventhly, related to point five, the four functions, which constitutes marketing, form a sequence so that production is subordinate to consumption. In other words, the gap cannot be closed arbitrarily. Departure must be taken in the needs of man, not in production. The above definition of marketing is an idealistic one.

that not all divided labor gives rise to marketing activity; i.e. we have a problem of demarcating what type(s) of division of labor causes marketing activities. This demarcation problem can be illustrated and partly solved by comparing a market economy with a centrally planned economy.

In a market economy we might distinguish between inter- and intra-division of labor, the former taking place between juridically autonomous units (=company specialization), which command economic resources, and the latter taking place within the units, i.e. a firm or a family.¹⁰⁾

This distinction between inter- and intra-division of labor is reflected in the distinct scientific disciplines, namely marketing, which is concerned with inter-division of labor and organization, which deals with intra-division of labor issues.

The distinction is made sharper than it is in practice. In a market economy we are familiar with "transfer prices", "profit centres", etc., within a firm, i.e. the market principle has found way, to some extent, into the intra firm division of labor. And we also know of rather "organized markets", where firms are linked to each other to an extent which makes it difficult to speak of a market. Arndt (1979).

In centrally planned economies with extensive collective ownerships, the distinction between inter- and intra-division of labor is difficult to make - at least the content cannot be quite the same as in the market economy case.

In principle, all division of labor in the centrally planned economy can be categorized as intra-division of labor. In practice, however, it is not difficult to divide the production system into subunits among which we can talk of an inter-type division of la-

bor. These subunits have their own legally determined status and some autonomy in their day to day operations. They have their separate accounting system, and the management and the workers are responsible for the fulfillments of plans made specifically for their institution.

Marketing in this situation is demarcated as the coordinating of activities between these subunits, i.e. for example pricing, physical distribution of specific quantities and organization is concerned with what is inside these units.

4.3. Different Forms of Division of Labor.

Departing from a subsistence economy - the closest we can get to a social formation without division of labor and still call it a society - there are two forms for division of labor with direct and important bearing upon marketing.¹¹⁾ These are:

1. A product and a functional division of labor, and
2. A power based division of labor.

The product and functionally based division of labor was what Adam Smith had in mind to increase labor productivity. His basis was the different talents of people combined with learning by doing the same thing again and again.

The most "primitive" division of labor is product based; i.e. the exchange of consumer goods. This division of labor is the point of departure both for marxists, when they want to illustrate the law of value, and for foreign trade theorists, when they want to illustrate the comparative advantages of trade.

The construction of each product might be broken down into many steps or stages or functions which are produced/performed separately, and which, therefore, must be coordinated to become the pro-

duct. This break down could take place within one and the same institution, i.e. intra division of labor, or the sub-products (intermediate goods) or functions could be produced/carried out in separate institutions, i.e. inter division of labor.

To produce the consumer goods, we need tools. Thus, we could divide the production system into two, namely the sector producing consumer goods, and the sector producing means of production, or to use conventional marketing concepts: Consumer goods and industrial goods.

There is no need to carry on any further. We are all familiar with the product and the functional based division of labor. The essential question is, however, what governs this break down, and especially what governs the division between intra and inter division of labor.

The question cannot be answered unless we clarify the meaning of "a power based division of labor". This is a division between those who decide, and those who execute or at least adapt to the decisions made by others. Clearly, we are here dealing with the social forces at work in society ¹²⁾ to determine the power structure in society. Without knowing the power structure, we will not be able to determine the product and the functionally based division of labor, and thereby the extent and role of marketing in society.

There might be technical "laws" which put restrictions upon the functional division of labor, and there might be restrictions stemming from human nature which do the same, but within this framework the power structure of society will have great influence upon the division of labor, and thereby upon the role of marketing.

In other words, the decision makers - the holders of power - decide the magnitude of the gap between consumption and production, and they

also determine how the gap should be closed. They might even decide that production should not be subordinated consumption, but that it should be the other way around, i.e. production needs have preference over consumption needs.

This leads to the conclusion that division of labor is economically (functionally) as well as politically determined. It is not solely a simple device to enlarge the material well being of man. It can actually be used against man, i.e. used to further the interests of the few over the many by making the many dependent on a complicated network of division of labor.

How does this influence marketing? Basically, the marketing role is to close the gap between consumption and production. To the extent that decision makers can determine what to produce and how to allocate the produced goods, obviously the institutionalization of marketing will reflect the power structure in society.

We could even go one step further and point out the marketing system as a political tool rather than the performer of an economic function. As the marketing system is the coordinator of economic relations between people in society, the marketing system is the place where any power struggle materialize, at least to the extent that the power struggle is economically determined and not, for example, religiously.

5. Some Theories of Division of Labor and their Marketing Implications.

5.1. Introduction.

The literature on division of labor is both scanty and comprehensive. It is scanty in the sense that "nobody, neither before nor after A. Smith, ever thought of putting such a burden upon division of labor" (Schumpeter 1954, p. 187), i.e. since Smith, very few have had division of labor as an explicit and essential element of their theoretical framework. Inspiration to the development of a division of labor based marketing theory must, therefore, come from the comprehensive literature, which has some bearing upon the division of labor, although it does not deal directly with it.

The following is not a review of this literature, but a selection of some theories, each looking at division of labor from a different angle. Further, the theories selected are dealing with the market economy, i.e. the Western way of organizing production and consumption. Theories of division of labor within a centrally planned economic system are, therefore, omitted.

5.2. Adam Smith: The Point of Departure.

Adam Smith did not "invent" marketing activity, and he was not the first to see the relationship between economic growth and marketing activity and systems.¹³⁾

Further, Smith has not been chosen as the point of departure because of his invention of the market mechanism. He was chosen because his growth paradigm so elegantly relates economic growth (the goal) with marketing issues by means of the concept division of labor. His growth paradigm can briefly be stated as follows: Division of

labor + capital accumulation, i.e. technological development = increase in productivity, which constitutes economic growth.

With this formula, Adam Smith emphasized the sphere of production rather than the sphere of circulation. His works were in that respect a settlement with physiocratic and mercantilistic thinking where (foreign) trade rather than domestic production was the creator of value in society.¹⁴⁾

Eltis (1975) elaborates on Smith's theory of economic growth. He states that by division of labor, labor productivity increases, because of an increase of dexterity in every particular workman and the saving of time, which is commonly lost in passing from one species of work to another. This initial division of labor does not just increase the quantity produced, but it also increases the quality, including the production of new machines. The new machines give rise to a further increase in productivity, which again further the subdivision of task etc.etc., the limit being the size of the population, i.e. of demand.

This growth process was to take place, or rather would take place, if an institutional framework - a marketing system - could be devised, letting the assumed egoistic sentiments of human beings unfold at the same time as they were turned into societal values through this system.

To accomplish this, the marketing system was institutionalized as a market system directed by the invisible hand.

To summarize: With the mentioned growth formula, based on the interplay between division of labor and technological development, Adam Smith made the marketing system a necessity, and by his famous thesis "that the division of labor is limited by the extent of the market", he put an upper limit on the size of the system.

5.3. The Classical Performance Paradigm by Bain.

As stated by Shumpeter (1954), the concept of division of labor did not play an important role in the theoretical development following Smith's works. The invisible hand, i.e. competition, seemed of more interest.

The classical performance paradigm by Bain is one example of this diverted interest. In spite of that, this paradigm is included, because it has much to say about competition, the fifth of our societal dimensions, and because it is part of the traditional Micro Economic base for received marketing theory. (Chamberlain 1933, Kuenne 1967, Kotler 1974).

Oversimplified, the classical paradigm by Bain can be shown as follows:

Structure → Conduct → Performance

i.e. performance can be derived from conduct, which again can be derived from the structure of the industry. The model is used on the horizontal level only.

If we turn around, we might say that the competitive situation, and thereby to a large extent the marketing situation of the firm(s) is known, when the structure of the industry is known.

The classical structural dimensions are the number of buyers and sellers (degree of concentration), barriers to entry and product differentiation.

From Micro Economics we know that the firms are eager to constrain competition, i.e. to imperfect markets, and it could also be said that traditional marketing is one big exercise in how to try to eliminate competition and thereby eliminate marketing activity.

This is done most effectively by merging with the competitors,

but as we know from basic textbooks, there are many ways of coping with competition, including intensifying competition in the short run.

Most markets today have an oligopolistic structure, and it is well known, that it has been difficult to predict the conduct and performance of this structure. One reason for this could be that the vertical level is not an integrated part of the classical performance paradigm.¹⁵ Basic textbooks in Industrial Organization and Micro Economics hardly deal with this issue. Micro Economics, the theoretical base for most received marketing theory, thus has not much to contribute to a marketing theory based on division of labor.

5.4. The Evolutionary Paradigm by Bucklin.

Literature on the distribution channel is dominated by the managerial point of view, but there are exceptions, and Bucklin is one of them.

Bucklin clearly has his roots within the classical performance paradigm, but by working with the whole distribution channel and the vertical marketing system, the vertical level has been part and parcel of his research, emphasizing the development, and thereby the division of labor within the consumer goods marketing system.

In his book "Competition and Evolution in the Distributive Trades", Bucklin is, in the introductory chapter, concerned with the conditions under which middlemen will be established; i.e. he is dealing with the question: What conditions lead to a higher degree of division of labor, i.e. to the elimination of oeconomia. This is in Bucklin's mind an economic problem: "...middlemen

appear in a channel when the incremental cost of their presence is less than the savings they provide to other agencies in the system" (p. 14).

- By using traditional Micro Economic reasoning he finds (p. 40):
- "...middleman systems may be said to offer greater economies than direct marketing, when:
1. The number of traders (sellers and buyers) increases.
 2. The goods have to be moved farther, and the buyer lot-size is smaller.
 3. The buyers' time horizons are shorter.
 4. The product assortments built by consumers are large.
 5. The market system is more decentralized.

These "laws" are then "applied" to describe the institutional development and structure in retailing and wholesaling, using a theory of stages.

Retailing in USA has, e.g. evolved through 4 stages as follows:

<u>Stage</u>	<u>Division of labor</u>
Periodic markets	Direct marketing, i.e. local producers sell to local consumers.
Permanent markets	Two types of resident middlemen. The general merchandiser and the craftsman-trader.
Fragmented markets	Specialized shops, i.e. horizontal division of labor.
Vertically integrated markets	1. Horizontal integration (department stores). 2. Integration of retail and wholesale functions. ¹⁶⁾

To explain this development, Bucklin relies on four factors, namely demand, technology of supply, money supply, and the managerial skills of retailers/wholesalers.

With this framework, Bucklin leaves us with a lot of inspiration to better understand how marketing gaps are created and closed within the marketing system itself.

5.5. The Transactional Paradigm by Williamson.

Within Micro Economics, the works of Williamson (1975) has a lot to offer on the issue of what creates marketing gaps in our economy.

He works towards "a new institutional economics", which in brief means "to think transactionally". He deplores the laws governing the "choice" of mode of organization, i.e. the market or the hierarchy. His thesis is that transactional considerations more than anything else (e.g. technological considerations) are decisive in determining which mode of organization will obtain.

His contention is, that by combining economic thinking with organizational ditto, he is able to explain the reasons for choosing a market solution for a hierarchical solution.

Said in another way and with his own words: (p.9)

"The markets and hierarchies approach attempts to identify a set of environmental factors which together with a related set of human factors explain the circumstances under which complex contingent claims contracts will be costly to write, execute, and enforce.

Faced with such difficulties, an considering the risks that simple (or incomplete) contingent claims contracts pose, the firm may decide to bypass the market and resort to hierarchical modes of organization. Transactions that might otherwise be handled in the market are thus performed internally, governed by administrative processes, instead".

Oversimplified we might say that Williamson adds the human dimension to Micro Economics.

Figure 2 shows the transactional paradigm by Williamson. He holds that the advantage of the hierarchical solution - the internal organization solution - is, the possibility to have an adaptive and sequential decision making process, which deals with issues, when they arise rather than in an exhaustive contingent - planning fashion from the outset. (p.10).

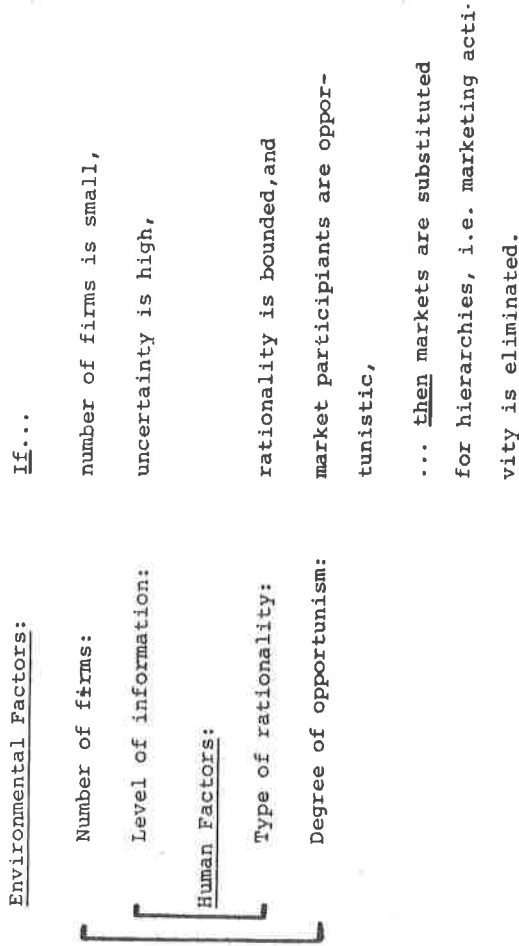
Williamson's transactional treatment of Stigler's explication of Adam Smith's theorem: "division of labor is limited by the extent of the market" better than anything else illustrates the transactional paradigm. (p.16-19).

Using Smith's theorem, Stigler found that vertical integration will be extensive in firms in young industries, because the firms constitute a too small market for a specialized supplier to be established. Disintegration will be observed as an industry grows; and reintegration will occur as an industry passes into decline.

Translated into marketing terminology, we can add yet another dimension to the product life cycle. From traditional marketing thinking we learn that marketing activity varies quantitatively and qualitatively over the product life cycle, and from Stigler's reasoning we learn that new supply markets are established in the course of a product's life.

Williamson does not disagree with Stigler on this point, but he argues that this pattern cannot be explained technologically or on the basis of economies of scale (as envisioned by Adam Smith), but must be explained transactionally, i.e. because of opportunism on part of rivals, bounded rationality of managers and a small-numbers industrial structure, the above pattern appears.

Figure 2. The Transactional Paradigm by Williamson.



In short, Williamson claims, that marketing activity is not determined by economies of scale derived from technological development, but is determined by transactional considerations, which might even work against exploiting economies of scale.

Williamson's work is interesting in yet another way. Traditional marketing thinking assumes a certain market structure, namely the oligopoly at the horizontal level and as most marketing (text)books are dealing with consumer goods, numerous buyers are assumed. Within this structural frame, the 4p's are manipulated.

The possibilities of altering the structure itself, i.g. by mergers, is not part of marketing or the marketing department. Integration issues are concerned with asset valuation (not pricing) and this is the responsibility of the finance department.

Williamson's reasoning around the choice of mode of organization clearly shows that it is not purposeful to separate structure from managing the 4p's. It is true that a certain structure following the classical performance paradigm gives rise to certain conduct, but the opposite is also true. "Structure" should, therefore, be the 5th P.

Williamson deals with the life or death of marketing by laying down the laws of choosing a hierarchical solution instead of a market solution. But he does more than that. He points out, that it might be within the marketing system itself, that the roots to give up marketing are to be found.

5.6. The Paradigms of International Trade and Dependency. 17)

At the international level, what forces are at work, causing marketing gaps to be established and which are the present and future gaps to be closed?

The answer to these questions depends on whether you see international trade as an engine of growth, i.e. the classical and especially the Ricardian interpretation of trade, or whether you see economic growth as an engine of trade, i.e. a marxist oriented interpretation. We shall look at both interpretations very briefly.

The theory of comparative advantages states that trade will be established, if the relative costs of commodities in two countries differ and, that both countries will gain i.e. will have economic growth from the trade, if the price at which the trade takes place is fixed between the present prices. This growth is independent of the absolute efficiency in producing the commodities in the two countries. This statement is valid not just for final products, but for intermediate products as well. Economic growth is, thus, accomplished by free trade, and the marketing system is vital in pointing out areas, where costs differ relatively or can be made to differ.

Others have pointed out that free trade has been promoted most vigorously by the economically (and perhaps politically/military) strongest countries in the world and not even these countries have pursued the free trade without a number of exemptions from it since the development of the comparative advantage doctrine. They further point out, that poor countries, developing countries, have not been able to show much economic growth, although they are deeply integrated through trade in the world market. In fact these people hold, that developing countries have been restricted from growing, because of this integration, which has made the countries dependent of the rich industrialized countries. They point out that to have economic growth the developing countries must either cut the links, i.e. eliminate the marketing gaps with the capitalist world market or a new international division of labor must be esta-

blished, a division where the developing countries are not just suppliers of raw materials and importers of primarily manufactured consumer goods. It is claimed that unless the domestic economy is integrated to some extent and, thereby, has some momentum of internal growth, the country is not able to gain from foreign trade. Domestic economic growth is the engine of foreign trade - not the opposite.

This, however, does not give the marketing system a less vital role to play. Domestic growth is to be accomplished by means of an integrated economy, and it is up to the marketing system to stimulate production and demand in such a way as to make the economy integrative.

These are the theoretical positions. Some change in the international division of labor has taken place over the last 20-30 years, but they seem to have changed the type of dependency rather than made the developing countries more self-reliant and established an integrated economy.

The major changes in the international division of labor are:

- 1) An increase in trade between developed countries, especially in intermediate commodities, i.e. the division of labor between developed countries has gone beyond the final commodity stage.
- 2) An increase in the raw material supply from developing to developed countries.
- 3) An increase in the trade with production equipment and export of complex projects, caused by the need for a new accumulation basis on part of the capitalist firms (and especially the TNCs) and caused by the pursuing of an import substitution and industrial development policy, in developing countries.
- 4) An increase in the trade with manufactured goods from the so-

called newly industrialized countries (NICs), following the export oriented growth strategy in these countries.

From this rather brief discussion it appears, that trade is an engine of growth, when we look at the industrialized countries alone, but the role of the marketing system is much more complicated, when we look at the relationship between developed and undeveloped countries. Further, we can observe, that international trade has increased tremendously, whereby the world interdependency has grown. This development alone - irrespective of the growth issue - makes it necessary, that marketing systems function smoothly because even minor interruptions will have an effect, similar to the one from throwing a small stone in the water. Finally, it is unavoidable, that the political role - the marketing system as the reconciling sector - will be more pronounced in such an interdependent world wide economic system.

5.7. Conclusion.

The theories presented are rather diverse and no unilateral conclusion is possible or intended.

The theories presented are of two broad types. Some of them relate division of labor to economic development and some deal with how division of labor or better how marketing gaps are established or eliminated, i.e. with the dynamics of the market economy without relating it specifically to economic growth.

Further, most of the theories have their roots within economics and are, therefore, preoccupied with the functional based division of labor. The exception is "the theory of dependency", where the power aspect of the division of labor between developing countries and the capitalist world market is focused upon.

6. Concluding remarks.

Marketing researchers are at present scrambling for a platform or a paradigm for a macro marketing theory. The past ways of treating the marketing phenomenon has been studied carefully and a diverse picture has emerged: Different aspects of the marketing system have been focused upon (the commodities, the functions, the institutions, the structure, the behaviour etc.etc.); Different scientific aims have been pursued (description, explanation, recommendation); Different actors have been taken as the point of departure (the business firm, the consumer, non-profit organization, the public); And inspiration has come from various scientific disciplines (Micro Economics and Industrial Organization, Psychology, Sociology, Statistics etc.).

Most of the past marketing theories are useless for formulating a macro marketing theory, preoccupied as they are with micro issues, and attempts to extend them to the macro level will most likely give the result that $2+2=4$ when we should arrive at 5.

This article is (at least in the author's mind) an attempt to start anew. It is an attempt to develop a platform upon which to deal with the issue "Marketing and economic development", one important aspect of Macro Marketing.

It is argued that the role of marketing at societal level is described by five societal dimensions: division of labor, income, population, distance and competition. Of these five, division of labor is the most fundamental one, because the rational of division of labor is economic growth at the same time as the pursuing of division of labor creates gaps between production and consumption, - gaps which must be closed by a marketing system.

Adam Smith developed this growth formula, but although the litera-

ture on economic growth is plentiful, very little research has taken explicitly departure in the concept of division of labor.

This article reviews some of the theories which most directly have bearing on division of labor and thereby on marketing. No clear picture emerges, however, as to "how marketing gaps are or should be established" and "how directly the gaps are related to economic growth". It is an open question whether the rational of division of labor should be found in human nature, in the "laws" of technology, economies of scale and relative costs; in transaction costs; or in the exploitive nature of the Capitalist firms.

Footnotes.

1. The concept institution is here used in the same broad manner as in Arndt (1981).
2. A typical marketing map of a developing country consists of four main commodity gaps, namely a rural-international gap, an international-urban gap, a rural-urban gap, and an urban-urban gap. (See Sorensen 1982).
3. For various reasons this limit might not be reached (see Williamson 1975).
4. This issue is discussed briefly in Sorensen (1979).
5. Much research has been carried out already, but it is not the purpose of this article to give any review of it.
6. Adam Smith assumed that division of labor was a consequence of this human nature, but (fortunately) it plays no role for the formulation of his economic theory, because the theory is based on human interaction in society and not on human nature directly. (Smith 1976, p. 27).
7. This can also be formulated the other way around - a more positive formulation: If marketing costs are reduced (e.g. if costs of transportation is reduced as in the last century or if costs of transferring information is reduced as in this century), whereby the social waste becomes lower, then the marketing system stimulates an increase in production.
8. Here it is normally thought of repetitious and tedious work in the factory, but one could also think of the tediousness of and time used for shopping as a non-material consequence of division of labor.

9. When members of society lived near subsistence level, the differentiation of the roles, created by division of labor, was purely functional and not hierarchical, i.e. no social classes existed.
10. Williamson (1975) distinguishes between "market transactions", i.e. exchange between autonomous economic entities, and "hierarchical transactions", i.e. transactions within a single administrative entity (p. xi).
11. Other forms of division of labor such as sex or age based ones and a division between those who consume and those who both consume and produce are also relevant for various aspects of marketing, but not important in this context.
12. I.e. stratification theories, which hold certain people to be superior to others are rejected.
13. Dixon (1981) gives an excellent account of this - an account, which once and for all should stop the cultural ethnocentrism, stating that marketing was invented in "modern" time U.S.A. If we add Hopkins (1973) to Dixon's work, we are at the same time able to settle with the generally held notion, that trade was unknown to so-called primitive societies until the Europeans appeared on the scene.
14. This might seem a chicken and egg issue as the two spheres are complementary, but thinking of Marxian labor theory it is not, and it is also turning Adam Smith on his head or at least twisting his way of reasoning, when Hart (1970, p.7) in his introductory textbook writes: "Through the marketing process, each person can specialize in the type of work he can do best..."

15. Apart from the fact that the internal organization of the firm as well as the strategies vis-a-vis its environment are not well integrated (Williamson 1975 and Thorelli 19).
16. As to developing countries, Forman and Riegelhaupt (1970) give an example of the evolution of the marketing system for food staples in Brazil, based on the sociology of the marketing system (rather than its economy) and pointing out among other things the increase in division of labor within the marketing system.
17. This section is based primarily on Kjeldsen-Kragh (1980), Mikkelsen (1980), and Palloix (1977).

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THE MARKETING MIX FROM A CONSUMER PERSPECTIVE --

A COMPARATIVE MULTINATIONAL STUDY

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*Kill us Data
not a study*

*Needs
short tests*

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The Marketing Mix From a Consumer Perspective

A Comparative Multinational Study

The managerial approach to marketing has viewed the marketing mix as a primary vehicle for control. Marketing managers are continuously expected to assess consumer response to various components of the marketing mix and to simultaneously set these components in a unified marketing plan. In general terms, the relative importance of the various components has been considered to be equal. [McCarthy 1968]. Application of the marketing mix concept, which had a major impact on the study and practice of marketing, has remained, however, mainly at the micro level.

Many empirical studies have attempted to gauge consumer reaction to marketing practices for a specific product or service, but only a few have concentrated on the macro level. The few exceptions include Barksdale and Darden 1972; Barksdale, Darden and Perrault, Jr. 1976; Barksdale and Perrault Jr. 1980; Greyser and Diamond, 1977; Hustad and Pessemier 1973; Kangum, Cox, Higginbotham and Burton 1975. These studies have explored consumer attitudes towards the operations of the overall marketing system in the United States. Questions were frequently asked about the components of the marketing mix, but the focus of analysis has been wider, concentrating primarily on consumer dissatisfaction across product groups and consumer segments and on the reaction to consumerism and government regulation.

Analysis of consumer attitudes towards the overall marketing system, by components of the marketing mix, makes it possible to more accurately diagnose

the sources of discontent. With this information priorities for action, that will correct specific problems in the marketing mix from a consumer perspective, could be set. The structuring of the key marketing control variables into a marketing mix is a simple but effective concept, which emphasizes the relation of the component parts to each other and to the whole system. The wide acceptance and explanatory contribution of this concept can be of value in the emerging area of macro marketing.

Measurement of consumer attitudes toward marketing practices have limited value without reference points for comparison. On the micro level, such reference points can be developed by comparing consumer attitudes across product groups. When the study focuses on the entire system, however, the relevant reference points are countries rather than products. A cross-national study makes it possible to investigate consumer satisfaction with different marketing systems.

The purpose of the study described here is to compare consumer responses to marketing practices on the macro level across countries and by the main components of the marketing mix. The locations chosen for this comparative study are six western and democratic countries with different environmental conditions. This makes it possible to explore the impact of economic and social environment on consumer reactions. The six countries are: United States, Canada, England, Australia, Norway and Israel.

This multi-national survey is based on a series of studies which originated in the United States in 1971 and were repeated there in the years 1973, 1975 and 1977. [Barksdale and Darden 1972; Barksdale, Darden and Perrault, Jr. 1976.] The comparative aspects of the present study can help us to interpret the findings and provide a benchmark for longitudinal studies across countries.

Research Expectations

The variation in consumer response to marketing practices can be examined along two lines: variations by country and variations by components of the marketing mix.

Variation by Country

Variations in consumer response by country are attributable to: 1) the state of economic and social development, 2) environmental changes in each country, and 3) the unique "national character" determined by such factors as history, climate, ideology and politics. It is clearly simpler to identify and measure the first two factors.

Comparative economic and social statistics for the six research countries are presented in Table 1. For each country the table presents a summary figure of economic and social standing based on the ranking of 140 countries by GNP per capita, and by ten indicators of education and health.¹ There is no perfect way to combine a variety of indicators, but this attempt provides a rough approximation of economic and social standing.

One can hypothesize, other things being equal, that the higher the economic and social standing of a country, the more satisfied its citizens are with its marketing practices and system. On this basis, it can be expected that consumers in Israel (with an economic-social standing of 21) are much less satisfied than consumers in Norway and Canada (with an economic social standing of 2). It is possible, however, that a higher level of well-

Table 1
Comparative Economic and Social Statistics¹
 1979

Country	U.S.	Canada	U.K.	Australia	Norway	Israel
Economic-Social Standing	6	2	15	9	2	21
GNP per capita (\$)	7884	8302	3968	7115	7628	3755
Education-public exp. per capita (\$)	454	650	239	357	420	255
Health-public exp. per capita (\$)	259	457	204	307	534	89
Life expectancy at birth (yrs.)	73	73	72	72	75	72
Inflation rate (79-80)	12%	10%	18%	10%	14%	120%
Military public exp. as a percent of GNP	5.8%	1.9%	5.0%	2.6%	3.2%	30.4%
Population (millions)	215	23	56	14	4	4

1. Source: World Military and Social Expenditures 1979.
 Data collected and processed by Ruth Leger Sivad
 from U.N., OECD, World Bank and other sources.

being, with more disposable income for spending, causes people to devote more attention to consumer problems and demand more of the marketing system and practices. There is much evidence to suggest that satisfaction is influenced more by expectations than by objective measures.

An important factor which is likely to affect consumer expectations is environmental stability. People who live in a relatively tranquil environment may be more willing to accept the current practices than people who live with uncertainty. An unstable environment is likely to create feelings of restlessness and dissatisfaction. Two indicators in Table 1 may provide a clue to environmental stability: the rate of inflation as a measure of economic stability, and the percent of GNP devoted to military expenditures as a measure of stability in national security. Table 1 shows that in 1979, five countries had two-digit inflation rates which are quite low compared to Israel's three-digit inflation rate. A similar disparity existed in the rate of military expenditures. These disparities may lead one to expect a higher level of dissatisfaction with the marketing practices in Israel. Among the five countries, the U.K. had a relatively higher rate of inflation (18%) and a high rate of military expenditures (5%). It would be interesting to explore whether these potential indicators of instability are reflected in consumer sentiment.

Variations by Marketing Mix Components

Research expectations about components of the marketing mix from a consumer perspective can be developed based on past studies and environmental trends. The four longitudinal surveys in the U.S. during the period 1971-1977, referred to previously, can serve as a starting point. Responses to selected key questions dealing with components of the marketing mix and the entire marketing

system, are presented in Table 2.²

A comparison of responses about components of the marketing mix can be based on the level of agreement with statements about each variable. (See Table 2.) Advertising seems to be a major problem area on this basis. Only about 20% of the respondents considered advertisements to present a true and reliable picture of the products advertised (statements 3.1 and 3.3). Pricing and service are also major sources of dissatisfaction. Most respondents (about 75%) considered high prices to be the most important problem facing consumers, and only a minority agreed that products are fairly priced (statements 2.1, 2.2). Similarly, only about 20% of the respondents agree that it is usually easy to get problems with products corrected (statement 5.3).

In comparison, the other two areas of the marketing mix -- product and distribution -- were relatively more satisfactory in the eyes of consumers. Only one third of consumers agree that the differences among competing products are insignificant and only about half of the respondents agreed with the negative statement about product quality (statements 1.3 and 1.1). There was high satisfaction with product availability and moderate dissatisfaction with its cost (statements 4.1 and 4.2).

It is interesting to note that the entire marketing system in the U.S. was considered more efficient than other countries although the majority of respondents did not consider the problems of consumers to be unimportant (statements 6.1 and 6.2).

The stability of responses in the U.S. over time is quite pronounced. This indicates that consumers are relatively slow in changing their perceptions in the face of environmental changes. The rate of transfer of products, services and marketing practices among countries in the western world has in-

Table 2: Consumers' Level of Agreement About Marketing Practices in the United States by Variables of the Marketing Mix, 1971 - 1977.^a

Statement	1971	1973	1975	1977
1. <u>Product</u>				
1.1 Over the past several years the quality of most products has not improved.	50	50	55	50
1.2 Manufacturers often withhold important product improvements from the market in order to protect their own interests.	51	49	55	54
1.3 For most types of products, the differences among competing brands are insignificant and unimportant to consumers.	33	30	37	34
2. <u>Prices</u>				
2.1 The most important problem facing consumers today is the high prices of consumer goods.	75	75	78	75
2.2 Considering wage rates and income levels today, most consumer products are priced fairly.	31	31	26	28
3. <u>Advertising</u>				
3.1 Manufacturers' advertisements usually present a true picture of the products advertised.	20	18	18	21
3.2 Generally, advertised products are more dependable than unadvertised ones.	38	31	28	31
3.3 Manufacturers' advertisements are reliable sources of information about the quality and performance of products.	17	13	14	18
3.4 The games and contests that manufacturers sponsor to encourage people to buy their products are usually dishonest.	38	27	25	24
3.5 The information needed to become a well-informed consumer is readily available to most people.	43	49	52	51

^a Level of agreement is designated by the percentage of respondents who agreed or strongly agreed with each statement.

Table 2 (continued)

Statement	1971	1973	1975	1977
<u>4. Distribution</u>				
4.1 Generally speaking, the products required by the average family are easily available at convenient places.	94	96	96	97
4.2 High prices of consumer goods are caused primarily by wholesale and retail middlemen taking excessive profits.		57	65	61
<u>5. Service</u>				
5.1 In general, the quality of repair and maintenance service provided by manufacturers and dealers is getting better.	19	20	22	21
5.2 Generally, product guarantees are backed up by the manufacturers who make them.	64	67	64	72
5.3 When consumers have problems with products they have purchased, it is usually easy to get them corrected.	16	18	22	23
<u>6. Marketing System</u>				
6.1 The (name of country) marketing system operates more efficiently than those of other countries.	50	49	55	58
6.2 The problems of the consumer are relatively unimportant when compared with the other questions and issues faced by the average family.	26	22	20	23

creased in recent years and the influence of U.S. culture and norms has also been quite substantial. All these lead us to suspect that the relative evaluation of the components of the marketing mix is quite similar in the developed countries of the free world.

A two-digit rate of inflation is a relatively recent phenomenon in the five western countries and a three-digit rate is relatively new in Israel. Even when salaries keep pace with inflation the psychological adjustment to frequent price changes is likely to present a problem for most consumers. It will not be surprising, therefore, to find that high prices have become a more critical problem for consumers.

Method

The method used to collect the data was essentially the same in all six countries. In 1979 to 1980, a questionnaire was mailed to a national sample of households in each country. The sample was drawn from telephone directories or national registration lists. With the exception of Australia, Canada, and England, one follow-up was made. A summary of sampling procedures, survey dates and response rates is given in Table 3.

The questionnaire consisted of 45 Likert-type statements and a number of questions about demographic characteristics³. For each statement, respondents were asked to indicate their level of agreement by checking one of five responses: strongly agree, agree, uncertain, disagree, and strongly disagree.

As indicated, the original study (enlarged by six additional statements after 1971) was replicated in the United States three more times prior to 1979. The high stability of responses in the four studies (see Table 2) suggests adequate instrument reliability.

In this study, particular care was taken to maintain equivalence of the questionnaire items. When the questionnaire was translated into another language, an iterative process was used. In Israel, Norway, and Canada, translators converted the English version of the questionnaire into Hebrew, Norwegian, and French (for the French-speaking section of Canada) and then another translator converted it back into English to isolate and correct problematic translations. In this fashion, the wording of the statements was made as similar as possible given language differences.

Regarding the mode of quantifying responses, respondents in all six countries used the same 5-point scale to indicate their level of agreement.

Table 3: Sampling Procedures, Survey Dates and Response Rates.

Item	Australia	Canada	England	Israel	Norway	United States
Sample frame	Federal Register	Federal Election List	Telephone Directories	Register of Voters	Telephone Directories	Telephone Directories
Number of Questionnaires Mailed	1000	1500	1110	2000	500	1608
Number of Questionnaires Delivered	980	1217	990	1655	484	1492
Number of respondents supplying information	294	366	290	361	242	628
Follow-up	None	None	None	One (Subsample of non-respondents)	One	One
Response Rate	30%	30%	29%	22%	50%	42%
Survey Dates	Spring 1980	Fall 1979	Summer 1980	Fall 1979	Spring 1979	Spring 1979

Similarity of the procedure used in the national studies should provide an acceptable level of equivalence and allow meaningful comparisons among the different countries. However, there are three reservations that should be mentioned. First, it should be noted that the relatively low level of telephone subscriptions in Norway (35 in Norway vs. 70 in the U.S. per 100 inhabitants) may cause the Norwegian sample to be somewhat less representative of the adult population than the United States sample. Second, although the response rates compare favorably with the other mail surveys, the non-response must be considered in interpreting the results. Those returning the questionnaires may have stronger (and more positive or negative) opinions than those who did not respond. Third, the questionnaire was developed in the United States. While it is thought that the concepts included in the questionnaire have universal meaning, it is possible that the study contains some cultural bias.

Results

The results of this comparative study, which pertain to the marketing mix, are summarized in Table 4. The presentation is organized by the following components: 1) product, 2) prices, 3) advertising, 4) distribution, 5) service, and 6) marketing system. Interpretation of the results is based on the comparison across countries and the comparison across marketing mix components.

1. Product

About one half of the respondents in the six countries are of the opinion that over the past several years the quality of most products has not improved (statement 1.1). The respondents in England and Israel are an exception. Two thirds of the English respondents agree with the statement while only one third

Table 4: Consumers' Level of Agreement About Marketing Practices in Their Countries by Variables of the Marketing Mix, 1979^a.

Statement	United States	Canada	England	Australia	Norway	Israel
<u>1. Product</u>						
1.1 Over the past several years the quality of most products has not improved.	54	47	65	53	46	33
1.2 Manufacturers often withhold important product improvements from the market in order to protect their own interests.	52	52	65	48	33	65
1.3 For most types of products, the differences among competing brands are insignificant and unimportant to consumers.	33	37	48	41	52	55
<u>2. Prices</u>						
2.1 The most important problem facing consumers today is the high prices of consumer goods.	81	75	80	72	71	87
2.2 Considering wage rates and income levels today, most consumer products are priced fairly.	27	53	28	38	49	9

^a Level of agreement is designated by the percentage of respondents who agreed or strongly agreed with each statement.

Table 4 (continued)

Statement	United States	Canada	England	Australia	Norway	Israel
<u>3. Advertising</u>						
3.1 Manufacturers' advertisements usually present a true picture of the products advertised.	21	21	29	23	28	13
3.2 Generally, advertised products are more dependable than unadvertised ones.	22	18	20	18	15	19
3.3 Manufacturers' advertisements are reliable sources of information about the quality and performance of products.	17	17	18	17	14	14
3.4 The games and contests that manufacturers sponsor to encourage people to buy their products are usually dishonest.	20	25	20	19	24	40
3.5 The information needed to become a well-informed consumer is readily available to most people.	50	60	42	46	48	19
<u>4. Distribution</u>						
4.1 Generally speaking, the products required by the average family are easily available at convenient places.	96	89	91	96	96	85
4.2 High prices of consumer goods are caused primarily by wholesale and retail middlemen taking excessive profits.	62	60	70	63	47	80
<u>5. Service</u>						
5.1 In general, the quality of repair and maintenance service provided by manufacturers and dealers is getting better.	20	26	16	21	29	16
5.2 Generally, product guarantees are backed up by the manufacturers who make them.	71	69	70	79	66	41
5.5 When consumers have problems with products they have purchased, it is usually easy to get them corrected.	23	28	23	34	25	9

Table 4 (continued)

Statement	United States	Canada	England	Australia	Norway	Israel
6. <u>Marketing System</u>						
6.1 The (name of country) marketing system operates more efficiently than those of other countries.	55	19	17	7	11	5
6.2 The problems of the consumer are relatively unimportant when compared with the other questions and issues faced by the average family.	21	23	42	38	65	22

of the Israeli respondents agree with it. The differences may be due to recent developments. The Israeli retail system has been modernized in recent years with a concurrent growth of imports and new product introductions, while retailing in England has been quite stagnant.

The majority of respondents tend to believe that manufacturers often withhold important product improvements in order to protect their own interests -- a possible reason for limited product improvement. The Norwegians are the exception, where only 33 percent support this statement.

Product differentiation is considered to be quite meaningful by the respondents in the U.S., Canada and Australia (1.3). Somewhat surprisingly, the respondents in Israel, Norway and England are less certain that differences among competing brands are important.

The overall reaction to the three product-related statements does not reveal serious dissatisfaction with either quality or assortment. This is particularly noticeable in comparison with some other components of the marketing mix, namely prices and advertising (see 2.1 and 3.1).

2. Prices

The majority of respondents in all six countries agree that the major problem facing consumers today is the high prices of consumer goods (2.1). The response is particularly strong in Israel (87 percent) where the inflation rate has surpassed 100 percent. The reaction of U.K. respondents, with 18 percent inflation is also quite strong (80 percent).

A major disparity across countries can be seen in response to the statement about the fairness of prices in relation to wage rates and income levels (2.2). As expected, the Israelis are extremely unhappy -- only 9 percent agreeing that

products are fairly priced. The Norwegians, however, are uncertain about the answer -- about half of the respondents agree that products are fairly priced. The responses of other countries fall between these two extremes. The majority of consumers in the six countries are either uncertain or disagree that consumer products are fairly priced. With the exception of Israel, the level of agreement does not seem to be related to the inflation rate in each country.

In comparison with other components of the marketing mix, prices of consumer goods, generate a high degree of dissatisfaction.

3. Advertising

The majority of respondents (about 80 percent) in all six countries do not agree that advertising usually present a true picture (3.1), or that products advertised are more dependable (3.2). There is an impressive degree of consensus on the statements across countries. It is interesting to note that the proportion of U.S. consumers who agree that advertised products are more dependable than unadvertised ones dropped from 38 percent in 1971 (Table 2) to 23 percent in 1979! These results indicate a major weakness, in terms of consumers' perceptions, of a key marketing control variable.

Advertising and promotion are viewed as unreliable sources of information rather than clearly dishonest. Most respondents do not support the statement that promotional games and contests are usually dishonest (3.4).

In spite of the poor image of advertising, about half of the consumers in most countries feel that the information needed to become a well-informed consumer is readily available to most people (3.5). The Israelis, however, do not agree that essential consumer information is readily available. It is probable, that because of more urgent national priorities, governmental sources of information about products and prices are more limited in Israel than in other Western countries.

4. Distribution

The only area of the marketing mix with which most consumers are satisfied is product availability. Respondents in all countries strongly agree (85 - 96 percent) that the products required by the average family are easily available at convenient places (4.1). The price of this convenience is another matter. The majority of respondents support the statement that high prices of consumer goods are caused primarily by wholesale and retail middlemen taking excessive profits. Israelis and Norwegians are again on opposite ends with respect to this issue. Eighty percent of the Israeli respondents agree with the statement compared with only 47 percent of the Norwegians.

5. Service

There is general cross-country agreement that repair and maintenance services are not improving (5.1). Only 16 to 29 percent of the respondents in the six countries think that the service is getting better. To emphasize the point, the majority of respondents in all six countries do not agree that it is easy to correct problems with the products they have purchased (5.3). This problem seems to be particularly strong in Israel where only 9 percent agree with the statement. In comparison with other components of the marketing mix, service is, therefore, a serious problem area.

In spite of the above dissatisfactions, consumers in five countries think that product guarantees are backed-up by the manufacturers who make them (5.2). The exception again are the Israeli consumers.

6. Marketing System

The greatest cross-country variation in consumer response is found in the overall picture about the marketing system (6.1) and about the relative importance of the problems of consumers (6.2). The similarity in response to previous statements is not reflected in the response to the comprehensive statements.

U.S. consumers are convinced that their marketing system operates more efficiently than those of other countries. No other country has a similar level of certainty about the superiority of their own marketing system. As we have seen, the response to statement 6.1 in the U.S. is not supported by greater satisfaction with components of the marketing mix. The response of American consumers may be explained by the knowledge that the U.S. is a net exporter of technology, products, services and marketing methods to other countries. The answers seem to reflect pride with American ingenuity rather than satisfaction with specific performance.

The overall picture is different when a statement about the relative importance of consumer problems is presented. Here we find the majority of Norwegians (65 percent) agreeing that the problems of consumers are relatively unimportant compared with other questions and issues faced by the average family (6.2). Considering the economic-social standing of Norway this response can be understood. But in no other country do the majority of respondents agree with this statement. The levels of agreement in Canada (23 percent) in the U.S. (22 percent) and in Israel (21 percent) show that the economic-social standing of a country is not a good predictor of the level of agreement about the relative importance of consumer problems.

Conclusions

The primary findings of the study can be summarized as follows:

1. Consumer evaluation of the marketing mix is uneven across the major components of the marketing mix. The major problem areas are price, advertising and service. The most satisfactory area is availability.
2. Consumer perspective of the marketing mix appears to be quite stable across the six Western countries in our study. There are some important differences

in response to specific questions, but the overall picture indicates a high degree of similarity.

3. The relationship between the separate evaluations of the marketing mix components and the overall evaluation -- in terms of the entire marketing system or the relative importance of consumer problems -- appears to be very weak. It is not clear whether this finding is a result of our limited survey instrument, or an indication of a general phenomenon.

4. There appears to be a limited relationship between the economic-social standing of a country and the overall evaluation in terms of the marketing system or the relative importance of consumer problems. Large differences in economic-social standing are reflected, however, in response to specific questions. This is particularly noticeable in the comparison between Israel and the other countries, mainly Norway. The sample of countries is, of course, much too small for generalizing about this point.

5. There appears to be a relationship between environmental stability of a country and consumer evaluation of the pricing component in the marketing mix. Respondents from Israel and the U.K., where inflation has been higher than other countries, show greater concern about prices. There is no special similarity in consumer response between Israel and the U.K. on other issues.

The findings of the study can be of value in both micro and macromarketing. It is important, for example, that marketing managers recognize the deep-seated suspicions that consumers have toward advertising. Rational reaction to a questionnaire is quite different, of course, from impulse buying in the marketplace. But consumer behavior has both rational and emotional elements. The economic interests of the marketer seem to justify an attempt to convince consumers that the advertising is not only emotionally attractive, but is also

reliable. The failure of marketing managers to convince consumers that advertising is reliable should be regarded as an important challenge and an opportunity.

Negative consumer evaluation of advertising efforts can easily lead to increased government regulation. Unless managers learn to impose ethical standards in their advertising and other marketing practices, there is always the likelihood that public opinion will support outside government intervention.

The study provides some guidelines for macromarketing management, as well. The findings seem to indicate that it is quite difficult to satisfy consumers. This is based on the degree of dissatisfaction across countries and over time (in the United States). The response of consumers is not based on some absolute economic or social conditions, but on a level of expectations which is changing with time. Nevertheless, a separate evaluation of the marketing mix components provides direction to areas where macromarketing efforts appear to be needed.

Rising prices are an obvious target which is well recognized and difficult to control. On the other hand, misleading advertising is much less dependent on general economic trends (e.g., the price of oil). Consumer organizations and government officials can, therefore, be more successful in mobilizing public opinion with the purpose of improving the reliability of advertising.

The study raises some interesting questions for further research. How can we measure the overall performance of the market system from a consumer perspective? Is it possible to generate a comprehensive criterion that will be related to the separate evaluations of the marketing mix components? Can

we generate a meaningful expectancy - value model of consumer evaluation for the macro system similar to the one generated for micro studies? The evaluation of the marketing mix components can also be approached in a variety of ways which are subject to further research.

We have seen that the measure of economic-social standing was applicable to the case of Israel in comparison with Norway, but was not very satisfactory for all other comparisons. Can the differences in consumer evaluations be explained by some other "national" characteristics? Further work in this area can be of value in many other cross-national studies.

NOTES

1. Source: World Military and Social Expenditures, 1979. The economic and social standing calculations were based on its rank among 140 nations on three equally important factors; GNP per capita, education and health. For education and health a summary rank is first obtained based on five indicators under each category. (Health indicators: public expenditures per capita, population per physician, population per hospital bed, infant mortality rate and life expectancy; Education indicators: public expenditures per capita, school-age population per teacher, % school-age population in school, % women in total university enrollment and literacy rate.)
2. The general method used to derive these longitudinal studies is similar to the present study and is outlined in the next section.
3. Responses to 17 questions dealing with the marketing mix and the marketing system are reported in this study.

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