Economics and Marketing: A Survey*

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Introduction

According to the working definition adopted by the American Marketing Association in 1985, 'Marketing is the process of planning and executing the conception, pricing, promotion, and distribution of ideas, goods, and services to create exchanges that satisfy individual and organisational objectives' (*Marketing News*, 1985). Although marketing grew out of economics long enough ago for its flagship publication *The Journal of Marketing* recently to have reached its sixtieth volume, the modern economist should feel at ease if venturing to read articles there or in any of the other main journals, such as *Marketing Science*, the *Journal of Marketing Research* or the *Journal of Consumer Research*. So long as the economist has a good knowledge of Chamberlin's (1933) *Theory of Monopolistic Competition* and is familiar with Lancaster's (1971) characteristics-based analysis of consumer demand it is easy to grasp what is at issue in most marketing articles and any puzzles can normally be sorted out rapidly with reference to an undergraduate marketing principles text. There will, in any case, often be references to the literature of economics, particularly to industrial economics and behavioural/evolutionary contributions. Despite the accessibility of much of the marketing literature, however, most economists leave it well alone. This may be unfortunate, not just because marketing may be able to offer ideas relevant to questions that economists are trying to solve, but also because the academic economists' share of the market for business students has shown signs of being under threat from marketing, which students perceive as more exciting, user-friendly and relevant to the solution of real-world business problems.

A lack of interest in marketing on the part of mainstream neoclassical economists is something they might justify by alleging that the discipline lacks scientific rigour or, less politely but more commonly, 'is a Mickey Mouse subject'. Even in the absence of intellectual snobbery, however, it is easy to see why such economists would feel uncomfortable with a marketing orientation: the subject at its core accepts that markets are not perfect due to information problems and not static due to persistent creative innovation as firms seek to find better means of appealing to customers or educating them about how they might meet their needs. All this goes against the neoclassical economist's automatic tendencies to frame problems in terms of optimisation over a given set of preferences and state of technology, and to think in terms of analytically separable supply and demand functions. Non-neoclassical economists attached to Austrian, behavioural, evolutionary and/or institutional ways of thinking have no such reasons for ignorance of marketing; on the contrary, as I hope to show in this survey of

modern day currents in marketing research and how they relate to the literature of economics, marketing and heterodox economics have considerable scope for cross-fertiisation (see also Horsky and Sen, 1980)..

The rest of the paper is divided into five main sections, followed by a concluding comment. First, there is an examination of the methodological status of marketing as a discipline. The second section compares and contrasts theories of consumer behaviour in marketing and economics, while the third section performs a similar exercise with respect to market structure analysis and the elements that are combined during marketing management, namely, product design, pricing, promotion and distribution. Section four is an examination of the broadening compass of marketing and its increasing integration with other business disciplines due to the recognition that prior to tactical questions about marketing mix lie strategic questions about whether a firm should even be trying to operate in the market in question. Finally, in section five, I examine marketing's emerging social conscience and how this relates to economists' work on growth, distribution and welfare.

Marketing and methodology

An obvious way to explore the relationship between economics and marketing would be to compare the two disciplines, or schools of thought within them, after setting them out as scientific research programmes in the manner of Lakatos (1970). We could compare and contrast their hard core assumptions and sets of 'do' and 'don't' rules (their positive and negative heuristics) for hypothesis construction and testing. The ingredients for such an analysis are gradually becoming available. Just as there exist a number of attempts to specify research programmes in economics (for example, Remenyi, 1979; Lavoie, 1992), so, via the work of Leong (1985), marketing research has begun the process of Lakatosian self-analysis. Further contributions will be aided by that fact that, in the area of practical marketing, would-be marketing gurus have a tendency to set out their works very much in the style of research programmes: in terms of bullet points that state the stylistic facts which form their foundations, followed by lists of things the practising marketer should and should not do. Indeed, their recipe-based approach is often evident in 'How to' styles of titles or subtitles of books (for example, Porter, 1980) and articles (for example, Day and Wensley, 1988). Such stylistic conventions in themselves imply something about the discipline's operational heuristics: 'The name of the game is to sell your ideas to busy executives; keep it simple and avoid elaborate

analytical prose or qualifying comments.'

Leong draws heavily on Hunt (1983) in his attempt to specify — albeit in rather less detail than his counterparts in economics — a hard core and positive heuristic for a general research programme that describes what marketers do. The fundamental research questions that marketing researchers should focus on are fourfold:

(a) Why do which buyers purchase what they do, where they do, when they do, and how they do?

(b) Why do which sellers produce, price, promote and distribute what they do, where they do, when the do, and how they do?

(c) Why do which kinds of institutions develop too engage in what kinds of functions or activities to consummate and/or facilitate exchanges, when will they develop, where will they develop, and how will they develop?

(d) Why do which kinds of behaviours of buyers, behaviours of sellers, and institutions have what kinds of consequences on scoiety, when they do, where they do, and how they do? (Hunt, 1983, p. 13)

Marketing's approach for investigating these questions is inferredby Leong to involve the construction of integrative models that resemble Remenyi's (1979) 'demi-cores'. The rule here is that they must be 'grounded in one or more of the marketing discipline's rich theoretical bases that include psychology, sociology, economics, organizational theory, and political science' (Leong, 1985, p. 30). One way of viewing this is to say that, unlike neoclassical economics, marketing sets out to be interdisciplinary rather than self-contained; another perspective would see it as implying that marketing lacks any analytical foundations of its own. Taking consumer behaviour research as an example, Leong notes that there may be several of these sub-programmes each providing different explanations of the phenomena at hand. Sub-programmes in any one area may in varying degrees be incompatible with frameworks used in other areas without threatening the hard core of the discipline as a whole.

Leong's (1985) Lakatosian analysis is just the tip of the iceberg as far as writing on the methodology of marketing is concerned. The explosion of interest in methodology in economics over the past two decades has remarkable parallels in marketing, much of it manifest in the leading journals (see particularly Bartels, 1968; Anderson, 1983; Hunt, 1983; Arndt, 1985; Hirschman, 1986; Nevett, 1991; Zinkhan and Hirschheim, 1992). As in economics, rival paradigms for research have been identified and there has been debate on issues familiar to

economists, such as:

(i) the dominance of logical postivism and antipathy towards ethnographic humanistic research that reduces the distance between marketers and consumers via studies involving participant-observation, in which the researchers do not view themselves as superior to their subjects but actively consult with them about the accuracy of their findings;

(ii) whether marketing is more akin to history than science, since complexity makes causation difficult to establish;

(iii) whether textbook principles are mainly applicable in oligopolistic North American and European markets;

(iv) whether marketing had become too abstract and focused on research instruments rather than important practical problems (according to Mausner, 1980, p. 98, 'The quality found in the *Journal of Marketing Research* consists largely of useless exercises of limited interest to a few afficionados far removed from real-world needs and issues').

Methodological writing in marketing recently has been characterised, just as in economics, by advocacy of realist approaches and by increasingly frequent use of non-lay words such 'ontology' which tend to exclude the generalist reader whose practices are being analysed .

Driving much of this debate has been a general unease about the scientific status of marketing, not in the way that economists have been arguing about the wisdom and consequences of attempting to make the subject like physics but out of a concern with academic credibility owing to its pursuit of knowledge to enhance managerial practice rather than because marketing is an 'intrinsically interesting social phenomenon' and much research is fragmented, amounting to the reporting of relationships between variables with little effort being expended to construct a theoretical framework for linking such findings into a coherent whole (Anderson, 1983, p. 28; for an early attempt to promote integrative thinking, see also Bartels, 1968). This was reflected in most texts: as O'Shaughnessy (1984, preface) observes,

> MBA students and others ... complain that current introductory texts leaves them unclear about how to think and plan in a marketing way. If a distinct impression remains it is frequently of marketing as conceptual confusion concealed by a quantitative overlay to suggest intellectual rigor. The reader is often offered a smorgasbord of ideas but no systematic understanding of marketing or the marketing dimension to business

problems.

To a considerable extent marketing researchers could be said to have produced this situation because they were prepared to try to take a much more complex view of business problems than characterises most economics. O'Shaughnessy's (1984) own text broke new ground by drawing attention to complexity as a barrier to the discovery of a simple formula for success in a market and by examining the credentials of many supposed marketing panaceas. But its impact, along with that of the methodological debate in marketing has so far been rather limited; despite increasing technical sophistication, marketing research remains fragmented and textbook sales are dominated by increasingly colourful and video-supported but otherwise not fundamentally altered editions of long established works.

Consumer behaviour

The marketing literature on buyer behaviour is enormous, as is evident in the size of popular texts such as Engel, Blackwell and Miniard (1986). Much of it overlaps with the literature of economic psychology that I have surveyed elsewhere (Earl, 1990). The scale of the literature in part is due to the willingness of marketing researchers to explore a far wider range of issues than normally is seen as relevant in economics. The marketer wants to know not just the features of products that make them appealing but about how consumers come to hear of them and why they find them appealing. Would-be theoretical synthesists consequently face a rich smorgasbord of research into topics such as: perception, memory, emotional dimensions, socialisation, reference groups, search processes, decision rules, and so on. Each area, in turn, involves a diverse range or sub-topics: in perception, for example, there is research on perceived risk (for a paper that is itself a synthesis, see Stem, Lamb and MacLachlan, 1977), on on distortions due to framing effects (see Puto, 1987), and so on. Faced with this situation, some marketers have sought to assemble theories of choice that bring together many of the topics that have been studied (the classic examples are Nicosia, 1966; Howard and Sheth, 1969; and the earlier editions of Engel *et al*., 1986). Their resulting 'models' present choice as an complex problem solving activity and provide convenient frameworks for organising textbooks. However, impressive though these theories are to look at as complex flow charts, they have been subject to strong criticism from a number of perspectives. One line of attack, from those inclined to the positive philosophy, has been to suggest that they are impossible to operationalise

and test or use for making practical predictions of consumer behaviour, because they contain too many causal links and require unrealistic amounts of data (see Tuck, 1976). An alternative critique, offered by Kassarjian (1978) and supported by Olshavsky and Granbois (1979), also argues for a more parsimonious approach but does so on the ground that, much of the time, such models are empirically false because consumers actually engage in little search and comparison of alternatives, even on a first purchase.

The positivist approach dominates the empirical literature, a disproportionate amount of which is on a single topic, namely, the estimation of multiattribute models of consumer attitudes towards particular alternatives. As early as 1973, Wilkie and Pessemier reviewed forty-two articles on linear compensatory models in which poor performances on one product dimension could be offset by good ratings on other dimensions and in the decade that followed the flood continued unabated despite weak empirical performances. In terms of overall vision, such stuides have much in common with the work of Lancaster (1971) in economics, the main difference being that the former do not embody the idea that there may be a diminishing marginal rate of substitution between product attributes. Conjoint analysis was invoked as a means of enabling analysts to decompose overall utility scores into part worths for each level of each attribute and hence to be able to infer the consequences of changing a product's specification or consumer perceptions. However, it has proved cumbersome and unreliable, particularly where there is little distance between rival brands (Day and Wensley, 1988, p. 14).

Reactions to the limitations of compensatory multiattribute choice models have included:

(a) the advocacy, by Olshavsky and Granbois (1979), of studies of the impact of brand reputations and situational constraints (for example, issues as mundane as shelf height placement of rival brands in supermarket);

(b) suggestions that behaviourist psychology based on patterns of reinforcement might deserve to be taken more seriously in marketing (see Anderson, 1983, p. 24; for a serious attempt to do so, see Foxall, 1989);

(c) the observation that researchers were ignoring the possibility that their models were based on data aggregated from consumers who might differ considerably in their attitude structures (see Bruno and Wildt, 1975, who provided a promising but so far little noticed technique for dealing with this and with (d) below); and

(d) suggestions that, owing to limited human information processing capacity, many consumers might not even use compensatory decision procedures, at least not in the

early stages of a decision (see Bruno and Wildt, 1975; Payne, 1976; Bettman, 1979). The last two critiques are probably the most interesting to economists given their attachment to both the use of 'representative agents' and the principle of substitution, and the closeness of the work of Payne and Bettman to the approach of the behavioral theory of the firm, with its picture of choice not in terms of optimisation but as a rule-based contingent process of trying to cope with complexity. To illustrate their line of thinking, imagine a New Zealander trying to choose a safe family car as a means for getting to ski-fields. The local classified motoring advertisements may list several thousand possibilities but, if s/he initially searches for a vehicle which is 'under $30,000, no more than four years old and 80,000km, with both ABS and four wheel drive', the choice set may rapidly reduce to a handful of examples of a couple of brands: the luxurious but bulky V6-powered Mitsubishi Diamante and slightly newer examples of the smaller, less refined but faster Subaru Legacy Turbo. A brand preference could them be established rapidly *either* by trading off in terms of the characteristics where these brands differ, in a compensatory way (for example, 'On balance I think I value extra refinement above performance that I will rarely use'), *or* by applying further non-compensatory tests with the outcome depending on the priority order of these tests (for example, 'my partner objects that the Diamante is too big', or 'I prefer to avoid turbocharged engines on grounds of reliability and ease or urban driving; if only I could find a recent non-turbo Legacy 2.2 with the optional ABS in this price range...').

In the view of Hirschman and Holbrook (1982), the information processing view of choice may in many contexts benefit from augmentation by an experiential, hedonistic perspective which recognises symbolic meanings people attach to products with respect to feelings of fantasy, historical connotations or emotional arousal. By consuming particlar brands consumers may be able to construct a fantasy world closer to their ideal self-image: thus a Marlboro smoking male may ideally prefer to imagine himself as a cowboy, rather than purchasing this brand because its cowboy theme seems to connote masculinity (Hirschman and Holbrook, 1982, p. 95). They suggest that this perspective may be particularly useful for subjectively experienced products such as spectator sports, music, film and theatre, and ballet, particularly since there are noticeable cultural differences in preferences in these areas, but with a common preference for a pattern of arousal that builds to a climax and then gradually subsides. Their analysis has strong parallels in economics with both Shackle's writings (discussed in Littlechild, 1982) on enjoyment by anticipation, and Scitovsky's (1976) attempt to infuse economics with findings from physiological psychology.

An alternative extension which likewise recognises the symbolic axpects of consumption is towards economic anthropology via a focus on the ritual dimension. This should not be confused with habitual behaviour of the kind emphasised by Olshavsky and Granbois (1979): in arguing the case for more marketing research into ritualistic exchanges, Rook (1985, p. 252) notes that rituals involve episodic strings of events in an exact fixed sequence, repeated over time and have dramatic scripting, often with considerable involvement and anxiety (as with rites of passage, a child's birthday party, or Christmas), with deep-seated emotions, aspirations and investments in luck and superstition. Rook himself provides an empirical study of grooming behaviour as 'a form of body language, communicating specific messages about individual's social status, maturity, aspirations, conformity, even morality' (p. 258). As with hedonistic consumption, research into ritualistic behaviour requires qualitative, holistic methods and field observation, with open-ended, intensive interviewing — none of which finds favour amongst those who wish to give marketing the look of a 'hard' science (hence the arguments for methodological pluralism at the end of an outline of humanistic methods presented by Hirschman, 1986) .

Marketing management and the marketing mix

The main focus of marketing teaching and research historically has concerned the need of marketing managers to work out, for the product markets in which their firms operate, effective combinations of elements from the '4Ps' that comprise the 'marketing mix': precise specifications and variants for the product, the price at which it will be sold, how it will be promoted and the channels by which it will be placed (distributed). Such a task was also central to Chamberlin's (1933) *Theory of Monopolistic Competition* and its complexity led to an analysis of competition as a process of search and experimentation in terms of the marketing mix, where cost and demand curves were not to be seen as independent entities at the level of the firm (Robinson, 1969). In marketing theory the complexity of the problem is made all the more acute by recognition of the product life-cycle phenomenon, which economists could view from the standpoint of literature on the diffusion of innovation and Schumpeterian processes of 'creative destruction'. Though product life-cycles are a core part of the marketing research programme, analysis of them is, as Dhalla and Yuspeh (1976) and Lampkin and Day (1989) have pointed out, often simplistic, over-generalised, weak on the competitive processes involved and prone to understimate the scope for using changes to the marketing mix to revive

sales of products that otherwise seem to be on the way out. The more sophisticated, population ecology treatment proposed Lampkin and Day (1989) complements implicitly the evolutionary economics literature inspired by Nelson and Winter (1982). Major changes may occur in terms of the appropriate marketing mix for generating the sales and profiability trajectory most consistent with the firm's goals as producers and consumers learn and as products are threatened by radical innovations. These changes will depend on the actions of rivals, though in early stages of a product life-cycle it may be rather useful to have rivals around to generate interest in, and spread knowledge about, the type of product in question; the main thing is to be able to survive a shakeout if there is excessive entry (cf. Richardson, 1960) and to be able to adapt as the extent of uncertainty and instability changes (cf. Langlois and Robertson, 1995).

Dynamic considerations aside, choices of marketing mix will be affected by how managers define the product market in question, what they see as the underlying product attributes on which competition that market is based. Complementarity adds a further dimension of complexity here, which, as Walters (1991) notes, has rarely been explored by researchers: in his own study, Walters found that price promotions of a product by a store automatically promotes complementary products, offsetting canniabalisation effects of decreases in sales of full-margin substitute brands. Like Lancaster, marketing researchers see most goods as substitutes for only a few others (detergents and magazines both compete for the consumer's dollar but are not seen as substitutes). Whereas the traditional economic approach to substitution involves purely *ex post* measurement in terms of cross-elasticities, a market structure analyst seeks also to identify significant relationships of substitution or complementarity in causal terms by mapping the extent to which goods are seen by prospective customers as having similar uses or needing to be used together to produce particular sets of outcomes (for example, see Fraser and Bradford, 1983; Srivastava, Alpert and Shocker, 1984; and Lattin and McAlister, 1985).

Precisely how a consumer sees the substitutability between products will to some extent depend on how they have been promoted and positioned as well as how they can be objectively differentiated in terms of measurable performance characteristics (see Ries and Trout, 1981). It should be noted here that Dickson and Ginter (1987) have identified considerable confusion in the marketing literature concerning the meaning of, and relationships between, 'differentiation' and 'market segmentation'. They suggest that the term 'product differentiation' be confined to situations in which buyers *perceive* the product in question differently from its rivals. Market segmentation opportunities arise where market demand can be disaggregated into groups of

potential customers who have a similar willingness to pay for a product based on factors such as lifestyle, income and perceptions. A strategy of market segmentation may simply involve price discrimination, as between busness and educational buyers of Apple computers. This would be an alternative to a product differentiation strategy be aimed at an entire market and and could merely involve advertising to highlight the product's distinctive qualities without any change having been made in the objective characteristics of the product to distance it from its rivals. A 'segment development strategy', by contrast, involves complementary use of product differentiation with the aim of 'altering the demand functions of a subset of consumer such that they will become similar and constitute a unique market segment' (Dickson and Ginter, 1987, p. 4).

Product ranges and characteristics

A body of literature is emerging in both economics and marketing which calls into question Lancaster's (1979) premise that that differences in tastes pose dilemmas in the area of product and public policy. The most radical views are those of Hayes and Pisano (1994) and Zeleny (1995), who offer a vision of 'tradeoffs-free management' where, for example, automation enables high volume and high standards of manufacturing quality to go hand in hand, and cunningly innovative designs enable products to be greener without being more expensive or forcing compromises on other performance dimensions. Also noteworthy is the work of Langlois and Robertson (1995) on the economic significance of modular systems with standardised component interfaces, and how this changes through product life cycles: in the early stages, there is great heterogeneity amongst both buyers and suppliers in respect of their visions of what the product should do and how it should do it, modularity enables buyers to mix and match, whereas once thinking has achieved convergence competition may focus on integrated appliances (contrast the popularity of component stereos in the 1970s with the dominance of music systems in the 1990s). To some extent, flexible manufacturing techniques and economies of scope may make it viable for firms to cope with unstable preferences and/or offer to different market segments physically different products based on a common core of components (Piore and Sabel, 1985); and, if a wide range of optional features is offered the individual buyer may be able to engage to some extent in 'design it yourself'. The notion that individualised products might nonetheless have a common core lends itself to integration with the product life cycle concept and the idea that choice involves a non-compensatory weeding out

stage followed by a compensatory tradeoff among contenders not eliminated in the first stage: as time passes by and real incomes rise, features that once were viewed as peripheral 'icing on the cake' become built into the list of basic requirements, not least of all because firms who pioneer them as a differentiating feature have a major incentive to make them appear essential.

Pricing

The scope for cross fertilisation between economics and marketing in the area of pricing was discussed over a decade ago in a symposium in the *Jouurnal of Business* (see Hauser, 1984, Nagle, 1984). Sethuraman and Tellis (1991) provide a good recent example of the fruits of such research in their theoretical and empirical extension of the work of Dorfman and Steiner (1954) on the tradeoff between advertising and price cuts. This goes beyond typical discussions in economics by highlighting the issue of whether or not manufacturers' discounts are actually passed on by retailers and the possibility that elasticities for price and advertising will vary over the product lifecycle. Sethuraman and Tellis argue that it is unwise to presume a complete pass-through of discounts and that the price/advertising tradeoff depends crucially on the ratio of price and advertising elasticities, retail pass-through, advertising/sales ratio and extent of price discrimination (regular customers may not get the discount); their empirical findings suggest that for nondurable goods and mature products advertising increases may be less profitable that price discounting. However, the existence of contributions such as this one should not be taken as implying that in the past decade there has been a widespread tendency towards convergence in this area.

The pricing question continues to take far longer to answer in marketing than economics. Entire books are produced on the subtleties of the problem and its possible solutions in different contexts (see Oxenfeldt, 1975; Gabor, 1988; and Simon, 1989). Marketers tend to refer to perspectives from economics at speed and with considerable technical sloppiness, particularly in the case of price elasticity of demand. In introductory marketing principles texts it is common for entire demand curves to be said to be elastic or inelastic on the basis of their slopes; there is a paucity of careful discussions, aided by reference to marginal revenue curves, of how elasticity varies along a demand curve whatever its slope. An economist would look in vain in discussions of the relative merits of 'skimming' versus 'penetration' pricing strategies for any recognition that the former (akin to short-run monopolistic pricing) might entail an elastic point on the firm's short-run demand curve, whereas the latter (akin to entry-deterring

mark-up/Ramsay pricing) could entail negative marginal revenue along with pricing on an inelastic part of the curve.

The technical casualness of marketers in respect of elasticity becomes understandable when one recognises that they have rather little time for the concept owing to practical experience of the difficulties of setting prices in dynamic markets where reversible experiments are practically impossible to perform due to: oligopolistic interactions; new entry or product innovation; consumer learning; and the crossing of psychologically sensitive response thresholds (cf. the phenomenon of 'sticker shock' when price increases take prices out of the normal expectational boundaries on which consumer budgets are based). According to Harry Henry (1958, p. 137), one of the pioneers of motivation research,

> The smooth 'demand curves' used to corrupt the young, by economists who have spiritually never set foot outside their universities and who have no acquaintance with the facts of economic behaviour, just do not exist in real life. The effects of price changes on the total market may be jerky in the extreme: up to a certain point they may be negligible, and then beyond that point a very small change may exert a very great influence on sales.

In heterodox economics, a simple response to the difficulties of taking given, well-behaved demand curves seriously at the level of the firm is to argue the case for either: (a) setting prices on the basis of normal costs plus a mark-up high enough to generate investment funds but low enough as to make life inconvenient for actual and potential suppliers of similar products (Eicnher, 1976; Andrews, 1993); or (b) offering products that are 'built to a price' (Earl, 1990–91) determined by prevailing conventions in setting budgets and which includes a profit margin limited by the actual and potential capacity of rivals to offer better specified products at that price (a firm with a cost advantage could take a higher margin or raise product specification in order to squeeze the market shares of rivals). Marginal adjustments to manufacturers' recommended prices set in such simple ways might then be made by retailers with more detailed knowledge of likely responses by local rivals and customers. Such a simplifying theoretical reaction would be unacceptable to a pricing specialist in marketing: Gabor (1988) rejected the notion of price elasticity as early as page 21 of his treatise on pricing but then went on to write about the subtleties of the problem for well over 300 further pages.

Promotion and distribution

The relationship between economics and marketing has been better consummated recently in the analysis of the remaining two elements of the marketing mix. Much of the work here is rooted in the work of Akerlof (1970) on asymmetric information, Jensen and Meckling (1976) on agency theory, and Williamson (1975) on transaction costs, markets and hierarchies; a review has been provided by Bergen, Dutta and Walker (1992). Some of it feeds back into the pricing literature. For example, Frank (1991) includes in his discussion of price discrimination the notion of discount 'hurdles' embodied in voucher-based promotions: existing affluent and busy customers may not bother carefully to collect and use the vouchers that entitle them to a discount, so the price cut effectively only applies to poorer segments. In a world of quality uncertainty, manufactuers can seek to convey signals of particular quality levels to prospective customers who cannot cheaply resolve the uncertainty by making trial purchases of rival brands. High quality may be signalled by relatively high prices, by the use of established brand names and endorsements by people who could ill afford to have their reputations tarnished, and by lengthy warranties which would obviously be ruinous if offered by manufacturers of unreliable products. Buyers may also use intermediaries (retailers, brokers) to cut down their search costs and help them distinguish good value from mere hype. Manufacturers themselves take risks when promoting their products with the aid of advertising agencies (see Earl, 1991) or placing them via intermediaries as either may face conflicts of interest or have difficulties motivating their staff: monitoring what is being done on behalf of a principal may be difficult or even impossible when the service is being performed at a distance (especially with exporting) or depends on the agent using specialist skills. Intermediaries may have to make risky commitments, too, in specific assets such as salesforce training and brand-specific display and repair equipment; sometimes manufactuers will try to change the distribution of risk and incentives by requiring distributors to take title to stock, but sometimes they will provide brand-specific equipment, training and even lease counter space in stores for their own staff to service. To obtain widespread geographical coverage with uniform quality, franchising or cooperative network systems may be used rather than fully independent distributors or multibranch single owner operations (Dnes, 1992; Dwyer and Oh, 1988).

A much richer view of business organisation and coordination than that originally suggested in the principal/agent and market/hierarchy dichotomies is thus emerging from studies

of distribution processes. It is rapidly being extended in two further directions. One is towards a sythesis with evolutionary economics, as in the work of Wilkinson (1990), who employs non-linear difference equation simulation models with the aid of catastrophe theory and cybernetics to offer a non-deterministic analysis of distribution channel structure evolution based on the build up of tensions that eventually go beyond the resilience of the system. The other extension begins by jettisoning the notion of the discrete transaction and moves towards a focus on scope for building *relationships* that enhance the functioning of marketing systems — or at least insulate sellers from price competition — via an openness to communication, feedback and flexibility and by the creation of assets specific to the supplier and customer pairing (a key paper from marketing is Dwyer, Schurr and Oh, 1987; in economics, note the emphasis on long-term purchasing relationships, goodwill, and relational contracting, respectively, in Richardson, 1972, Andrews, 1993, and Kay, 1993).

The strategic dimension

Although marketing management differs from traditional price and production economics in that it does not require thinking in terms of given and independent demand functions and cost curves, it nonetheless shares with economics the core notion that one should explore alternative marginal adjustments as means of improving outcomes: for example, lower prices versus a bigger advertising budget or better specified product, or a bit more print advertising versus a bit more television advertising. However, the search for an optimal mix of the '4Ps' via marginal adjustments begs the question of how the firm decides what line of business it should be in and thereby narrows down the context in which the marketing mix is designed. When the marketing manager treats the product as a variable s/he is normally dealing only with possible variations on a broad design of type of product to which the firm's strategists have already made a commitment: for example, the grade of upholstery cloth to specify in an executive motor vehicle, not normally whether to be in the executive area of the market, and certainly not whether the firm should be in the car market rather than/or as well as, say, whitegoods.

From the early 1980s there has been a growing recognition that marketing management and business strategy thinking need to be integrated to provide more insight into questions about the mission of the firm and how it might gain a sustainable competitive advantage. To some extent this represents a revival of the philosophy of Alderson (1957), who had tried to promote marketing research in terms of the search for differential competitive advantage. In the vanguard

of the new wave were Wind and Robertson (1983, p. 14), who noted the unduly short-run focus of marketing writing and its tendency to assume a static environment and given set of brands and perceptions (for example, in work using multidimensional scaling and conjoint analysis). As they put it, 'We can tell practitioners whether consumers want a minor product change, such as a new flavor, but we offer little guidance in assessing potential demand for discontinuous innovations, or the demand for existing products under radically different demand conditions.' Subsequent integrative writing has been very fruitful but has made it increasingly difficult to keep a clear picture of the boundaries between business economics, strategic management and business policy, and strategic marketing — a fact that is prone to be associated with considerable duplication of content in non-integrated modules of MBA programmes or later stages of undergraduate business degrees.

Initially, marketing researchers became interested in simple matrix systems for classifying activities and deciding whether to divest or increase investments in them. Most famous amongst these was the two-by-two 'Boston box' in which a firm's activities were each located in terms of whether they were in high- or low-growth markets and on whether they had high or low market shares.The growth rate of the market would affect the firm's need to spend on further investment in design improvements, promotion and capacity expansion, while the market share would determine profitability insofar as it generated scale economies and, particularly, experience curve effects (Boston Consulting Group, 1972). A diversified firm's 'portfolio' of products would ideally consist of 'stars' (products with a high share in rapidly growing markets) and 'cash cows' (products with a high share in established markets, whose profits could be milked to supply the needs of 'stars'). 'Dogs' (with low market share in stagnant or declining sectors) would be divested, while attempts would in some cases be made to turn 'question mark/problem child' activities (with low market shares in high-growth sectors) into stars. Closely related to this line of thinking is the controversial work of Levitt (1983) on the globalisation of markets in which it is argued that the key to competitive success is to offer globally standardised products which are functional, low-priced and reliable means of helping people meet universal underlying needs, such as the alleviation of life's burdens and the expansion of discretionary time and spending power. Levitt asserts that firms should concentrate singlemindedly on pursuing economies of scale on all fronts rather than worrying about the details of what people in different markets think they might like (for a critique, see Kashani, 1989).

The Boston approach was initially justified with reference to empirical studies using the Strategic Planning Institute's PIMS (Profit Impact of Market Strategy) database, and estimates of 'experience curves' relating unit costs to cumulated production volumes. In contrast to the view in the structure–conduct–performance approach to industrial economics — in which profitability is determined by industrial concentration — work by, for example, Buzzell, Gale and Sultan (1975) using the PIMS database was taken to suggest that there was a causal relationship between market share and profitability, which could result from the successful pursuit of strategies of low-cost leadership. This analysis continues to provoke considerable criticism. Jacobson (1988) has provided a particularly strong econometric critique after noting that many different theories might be offered to explain the market share/profitability relationship: via a reduced form VAR analysis he argues that market share has no significant effect on return on investment and that earlier studies with findings to the contrary failed to control adequately for the effects of unobservable firm-specific variables. (For example, market share may reflect profitability of a strategy that is difficult to fathom or imitate.) Alberts (1989) notes that while experience curve notion is discussed respectfully in strategy-oriented marketing texts, origins of observed experienced curves need not lie in market share-building activities: in many areas of production, minimum efficient scale is small relative to total market size, so success in achieving cost reduction may depend largely on managerial policies and innovative activities. A marketing perspective leads to questions about the desirability of low-cost based strategies if market segments exist in which customers are prepared to pay appreciably more for superior products and standards of service. This was to some extent recognised by Porter (1980) who focused his competitive analysis on three generic strategies: cost leadership, differentiation and focus. Though widely discussed in marketing, Porter's generic strategies have not been warmly received: he generally makes little use of marketing notions; indeed, since in marketing it is assumed that buyers are heterogeneous, an industry-wide strategic target with no focus on niche segments seems inevitably subotimal (Wind and Robertson, 1983, p.15; for an extended critique, see Sharp and Dawes, 1996) .

The continuing coverage of the Boston portfolio approach to strategy within marketing teaching in part probably reflects the slowness with which the discipline at large is absorbing the implications of non-reductionist ideas from writers such as Ansoff (1965) — who examined the question of diversification with heavy emphasis on the notion of synergy (spillover potential between products/activities, or 'economies of scope') — and Penrose (1959) — who portrayed

the firm as a learning organisation which assembled a unique set of competences through experience rather than simply by hiring well-specified inputs in factor markets. These contributions take a much more holistic, long-term view of the problem of sustaining competitive advantage and promote analysis of potential diversification activities in terms of needed capabilities and potential synergies with existing activities; they have been extended by Kay (1982; forthcoming) with a focus on ways in which a firm's strategic vulnerability is affected by its overall mix of activities and patterns of linkages between them.

From Ansoff 's standpoint, it makes no sense to look at at a single brand/product in isolation from the rest of the items in the firm's portfolio: even if a product is not yet selling in large enough volume to generate profits via economies of scale and/or learning effects, it might still be profitable due to economies of scope, such as the use of an established brand name and/or distribution system, that rival suppliers cannot match. In general, Ansoff's focus on synergy is a major contrast to the tendency of those working on marketing management to focus mainly on individual brands: where elements of a firm's product range have linked demands and/or linked costs, a reductionist approach can produce expensive cases of poor coordination, such as when several of a firm's brands are positioned too close to one another and cannibalise each other's sales.

From Penrose's standpoint, it would seem unwise to presume that the capabilities required to achieve 'star' performance now will be the ones required to maintain that performance or turn the product in question into a cash cow in the future: required marketing or production skills may change as a product moves through its lifecycle, particularly if existing competitors change the competitive rules of the game after cultivating new capabilities. Two kinds of capability appraisals are required before the wisdom of marketing strategies can be assessed: ideally a firm will not merely make competitor-centred appraisals, comparing its capabilities with those of its rivals; it will also make customer-focused assessments, working back from customer benefits offered by a product to capabilities required for their effective delivery (Day and Wensley, 1988). Walker and Reukert (1987) argue that whether a firm's realised strategy is the same as its intended one depends not merely on the fit between strategy and environment but also on the match between the strategy andthe internal characteristics of the firm. Effective implementation will depend, for example, on whether the firm's competences are matched to marketing/differentiation or to engineering/cost reduction; on what functions the firm spends its money on (marketing, engineering, or control?), who participates in/influences

decisions, and whether roles are formalised, centralised or specialised.

Penrose's perspectives have generated a burgeoning cross-disciplinary literature known as the 'resource-based theory of the firm' (see Connor, 1991 and Mahoney and Pandian, 1992, for surveys), which makes new intelligence-gathering demands on analysts and may do something to stem the spread of interest in applying game theory to competitive analysis. If decisions about which competitive battles to fight are based on a firm's assessments of its capabilities relative to its rivals, then analysts may be unwise to specify the structure of competitive games without first gaining insight into how firms assess each other's capabilities relative to their own; there is no guarantee that combatants will see things in the same way or learn the same things about each other from a particular marketing experience (see further Harper, 1996). The literature here is set to explode in a new direction with the growing recognition that a potentially decisive determinant of competitive strength is competence in *purchasing* and supply chain management: as companies such as Jaguar have found, market goodwill can be affected disastrously by unreliable minor components supplied by weakly committed or insufficiently competent outside subcontractors. Where a firm's own resource limitations and risks of opportunistic behaviour by suppliers to captive internal markets mean that internalisation is by no means the automatic solution to such problems, marketing success may depend on an orientation towards and capacity to service the needs of the *ultimate* buyers being cultivated in *all* organisations vertically linked in a value creation process. In a sense, research into supply chain management (the University of Bath is the leading UK centre) is turning the study of industrial buyer behaviour on its head, changing from a positive to a normative focus; it also involves inputs from relationship marketing, total quality management and the growing literature on quasi-integration, networks and industrial districts (see Richardson, 1972; Langlois and Robertson, 1995).

Welfare economics and macromarketing

Until relatively recently economists with social consciences would have felt decidedly uncomfortable with the orientation of most marketing writing. Marketing theorists seemed overwhelmingly concerned not with the implications of their discoveries for society at large or particular groups of consumers but with what they implied for practising marketers: as Tucker (1974, p. 31) observed, 'Marketers have had a tendency to study the consumer in the ways that fishermen study fish rather than as marine biologists study them'. Critical perspectives of

Galbraith (1958) and Packard (1957) concerning the threat of marketing techniques to consumer sovereignty were dismissed within marketing with reference to the very high failure rate in new product launches (for example, Foxall, 1980, pp. 192–3). This view was echoed by Austrian economists such as Littlechild (1982), who examined the likely power of advertising in the light of Alderson's (1971) discussion of advertising strategies in relation to psychological theories of action. He suggested that arguments for banning the advertising of products such as cigarettes were overly influenced by behaviourist psychology and had paid insufficient attention to gestalt psychology and psychoanalytic approaches which imply a role for advertising to help consumers exercise their creative imaginations to form tastes and work out which goods serve well as means towards particular ends. (From a behaviourist standpoint it is no surprise that Littlechild should find Alderson's arguments appealing, for the latter's writings on marketing do much to reinforce the subjectivist vision of the Austrian school: see Reekie and Savitt, 1982. For a thorough review of research on advertising and smoking, see van Raaij, 1990.) Many marketers did not even get as far as considering what psychological research might imply about the power of advertising and the extent of bounded rationality suffered by consumers. Instead, they appealed to the 'marketing concept', pioneered by the General Electric Company shortly after the end of the Second World War and very much part of marketing's hard core. This holds that the path to business success lies not in duping and manipulating consumers but in understanding their needs and devising better ways of meeting them. As Dickinson, Herbst and O'Shaughnessy (1986, p. 18, emphasis in original) observed, the marketing concept put academic marketers in a position where they 'could now freely acknowledge *attempted* manipulation but dismiss as being a sub-optimal marketing strategy in the long run'.

Blind faith in the marketing concept has gradually been tempered over the past decade, for marketing now has developed its own version of welfare economics, known as macromarketing, complete with a well-established eponymous journal. Though macromarketing at present lacks an agreed hard core and set of heuristics for the conduct of empirical research — its limitations are surveyed by Meade and Nason (1991), who argue the case for a systems theoretic perspective — its content was established two decades ago. According to a widely cited definition by Hunt (1977, 56)

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

society on marketing systems.

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

It is common for two or all of these criteria to arise simultaneously in macromarketing studies, particularly given the coevolutionary nature of marketing systems and society. In cases where questions have been raised about the consequences of marketing activities for the environment (for example, disposable diapers, discussed by Meade and Nason, 1991, pp. 77–81) or the impact of environmentalist policies on marketing activities (for example, German legislation concerning returnable packaging: cf. Hunt's third criterion), it becomes rather difficult to draw a line between macromarketing and ecological economics: both subdisciplines have at their core the potential for exchange systems to fail to internalise externalities.

One of macromarketing's most widely discussed cases is related to Hunt's second criterion and concerns the problems associated with the marketing of infant formula in developing countries: issues of interest range from the failure of multnational firms to redesign their products (to make them safe to use in such markets), to the international boycott organised against Nestlé and whether or not the risk of such *ex post* boycotts will prevent similar kinds of life-threatening ventures in future, or whether public policy interventions are needed. The infant formula scandal joins the global spread of 'Coca-Cola/McDonald's culture' and the Marlboro Man, along with the unrealistic raising of consumer expectations and aspirations, among alleged costs of international marketing in developing countries. Such costs need to be weighed against claims about the wider beneficial contribution marketing in economic development 'in the areas of an improved distribution system, an improved marketing information system, and an improved information dissemination system and better consumer motivation' (Kaynak, 1986, p. 3).

Though a literature has grown up on the political economy of distribution systems (see, for example, Stern and Reve, 1980; Dwyer and Welsh, 1985), macromarketing is yet to make a

detailed appraisal of the monopoly power of modern marketing systems in the light of the emerging capabilities-based view of dynamic competition. Despite agreeing with business economists and strategic management theorists that the possession of distinctive capabilities can be a source of competitive advantage, marketers do not seem inclined to portray the nature of business in quite the same way. In particular, writing in marketing does not stress that financial returns depend not merely on having the vision to assemble a unique pool of resources but also devise systems to *capture* the quasi-rents that the resources can generate. From the standpoint of a management team it is no good to produce a wonderful product if it generates minimal returns because the value added is captured by workers or external contractors (whether at the input stage or in the distribution chain) who charge dearly for their distinctive skills, or by customers to whom it has been marketed with a lower margin than might have been feasible had it been better promoted and positioned. From this standpoint, marketing's fundamental role is to generate lucrative exchanges that capture rents from customers (for example, by devising segmentation strategies and/or differentiating products in ways that enable them to command higher prices and margins) or prevent third parties involved in the distribution system from extracting them or dissipating them (for example, forward integration or exclusive franchises may be used to lock out rival firms' products).

Though offered to assist business managers, Kay's (1993) impressive development of the argument that business strategy and marketing are fundamentally about creation and capture of quasi-rents is surprisingly redolent of contributions to radical political economy, such as Hymer's (1960) seminal portrayal of multinational enterprise as a device for limiting the spread of a firm's rent-generating knowledge. In marketing, however, capabilities-based analysis does not lead to radical welfare conclusions since, in the words of. Day and Wensley (1988, p. 2), 'The sustainability of ... positional advantage requires that the business set up barriers that make imitation difficult. Because these barriers are continually eroding, the firm must continue investing to sustain or improve the advantage.' Though Day and Wensley set up a diagram (1988, p. 3) showing the investment of capability-generated profits as part of a feedback system, their perspective remains one of a treadmill rather than of a cumulative process somewhat related to the Boston Consulting Group's experience curve-based view of corporate growth.

Within marketing, as in Austrian economics, there seems to be a presumption that it is difficult to employ a capability to obtain a competitive edge without simultaneously assisting

others to acquire a similar capability (demonstration leads to imitation) or provoking them to develop it via innovative problem solving activities. For example, Dickson (1992) integrates ideas from marketing, Austrian economics (Schumpeter as well as Hayek and Kirzner) and evolutionary analysis to form a dynamic view of competition that focuses on variation in the adaptability of individual sellers over time as supply and demand imbalances motivate firms to experiment. He sees the only real long-run source of sustainable competitive advantage as the ability the learn faster than the competition and to adapt to what is learnt. (However, he concedes that where it is difficult to infer patterns — as in turbulent markets of Eastern European countries in transition — success may depend more on luck than on the analytical capacities of managers.) In Dickson's (1992, pp. 77–8) analysis, it is competition that *forces* firms to have a 'marketing orientation' — the relentless pursuit of continual customer service improvement. Improvements in customer welfare are not ultimately prevented by barriers to off-the-shelf purchases of capabilities but they may be delayed by institutional arrangements that divert rewards away from customer-oriented learning in favour of the acquisition of legal and accounting expertise; otherwise, attempts to imitate and improve upon the policies of successful businesses will sooner or later disturb even those markets where some kind of truce between major players has produced temporary stagnation.

The financial services sector may be used to illustrate the difficulties that macromarketers face in judging between Austrian and radical perspectives. A bank may promote itself as trying to build up relationships with its customers in order to be able to offer better long-term service as it gets to know more about its established clients. However, it may actually be achieving higher profits by raising perceived switching costs for customers. If the bank's knowledge of a customer could be transmitted on paper in its entirety and if the legal framework enabled the customer to demand a copy of such a record, then customers who wished to borrow could switch easily to rivals that offered cheaper loans, just as, armed with renewal notices that specify their no-claims discounts, they can switch between motor vehicle insurers. In reality, there is no such legal requirement (though banks do cooperate to some extent by sharing credit ratings); worse still, some knowledge held by banks about their customers may be of the tacit variety, existing in the mind of the banks' 'relationship managers'. This being so, customers will have a far harder time demonstrating their creditworthiness to potential new bankers, unless their relationship managers themselves defect to rival institutions that are willing to offer them a better deal in the hope they will bring established clients with them; even in the latter case, there

is no guarantee that customers will get cheaper loans as the 'golden hellos' have to be paid for somehow. The Austrian/marketing perspective would no doubt argue that such an analysis ignores scope for innovation by agents who recognise the barriers to shopping around and set themselves up as intermediating loan brokers and cultivate relationships of their own with would-be borrowers. Such brokers may appeal (*but not without first incurring costs of establishing their presence and credibility*) to borrowers who are not already in a banking relationship but, for the rest, the costs of switching out of established relationships remain — these costs will apply to switches between rival loan brokers, too.

Conclusion

With its focus on the generation of exchanges that seem mutually beneficial to the parties involved, marketing implicitly shares the economist's interest in the relationship between specialisation and the efficiency of resource allocation.The disciplines share some areas of study (such as pricing and consumer behaviour) and visions about the essence of decision marking (as with the marginal trade-off notion embodied in the concept of both production economics and marketing management), though sometimes, as with terms such as segmentation and macromarketing, areas of common concern may be clouded by differences in jargon. Though over forty years ago P.W.S. Andrews (1952, p. 76–7), the Marshallian founder of the *Journal of Industrial Economics* argued that knowledge of marketing was essential for industrial economists, marketing seems unlikely to form a partnership with mainstream neoclassical economics even though the view of the shrewd, discerning consumer embodied in the 'marketing concept' sounds disconcertingly like Rational Economic Man. There is just too much about the practice of marketing research that conflicts with the neoclassical hard core, though, if the market for orthodox economics were to collapse, econometric modelling specialists would be well equipped to infiltrate swiftly the technically sophisticated quantitative journals such as *Marketing Science* and, increasingly, the *Journal of Marketing Research.*

The market for marketing research in economics lies with the heterodox segments. In order to be able to discuss the social impact of modern business economists on either side of the political spectrum need to be well informed about the practice of marketing. The sheer scale of expenditure on marketing activities should provide a constant reminder of the real economy's distance from the ideal world perfect competition. Wherever marketing expenses need to be incurred, contestability may be far more limited than it might appear from an examination merely

of economies of scope in respect of production. Yet without barriers to contestability and scope for earning at least short-run rents entrepreneurs are unlikely to be willing to commit themselves to non-recoverable production and marketing costs (cf. Richardson, 1960). Moreover, it is difficult to study the complexity of marketing problems — which marketing writers invariably illustrate with frequent reference to cases of failure as well as success — without emerging with a heightened awareness of the dangers of deterministic business teaching and research. Monopoly rents, where they arise, are the outcomes of diverse experiments conducted to find a path to success in the marketplace. These experiments achieve their distributional consequences not merely by changing prices but also the technologies and preferences that neoclassical economics takes as given. Marketing as a discipline thus has a natural affinity with path-dependent approaches to economics and may well have a major role to play in facilitating the coming together of radical political economy, evolutionary, institutional and Austrian economics to form a pragmatic alternative to mainstream economics, which will in turn feed back into marketing to generate more circumspect theoretical analysis and a constant concern with the macromarketing dimension.

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