Services Marketing

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Preface

The book begins by trying to define services and assessing the impacts of core service characteristics on marketing activities. In some aspects of marketing, for example pricing and promotion, the general principles of marketing can be adapted to meet the needs of services. In other aspects, new principles are called for. For this reason, a chapter is given to studying the service encounter where customers become involved in the service production process. Another chapter is devoted to studying the interface between human resource management and marketing, something which is vital for the success of people-based services. Other themes that are emphasised in this book are the importance of information technology as a tool for producing, distributing and promoting services, and the increasingly important role of buyer-seller relationships as a service benefit in its own right.

The final chapter considers the problems and opportunities open to firms expanding overseas in increasingly competitive global markets for services. To illustrate the general principles of services marketing, each chapter contains contemporary examples of good practice drawn from successful services organisations. The division of the material in this book into various chapters is to some extent arbitrary and successful marketing must recognise the inter-relatedness of all of the subjects covered.

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Contents

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1

Introduction to Marketing

DEFINITION OF MARKETING

Marketing is the process of planning and executing the conception, pricing, promotion, and distribution (4 Ps) of ideas, goods and services to create exchanges (with customers) that satisfy individual and organizational objectives.

Satisfying customer needs (creating utility) through the exchange process.

Create a Marketing Mix (4ps):

- Product.
- Price.
- Promotion.
- Place

Marketing Mix:

- Product...Border Lights, a new menu of "light foods"
- Price.....Value Pricing as with their other menu items
- Promotion...Various media and methods, a commercial that appeared during the 1995 Superbowl to announce the arrival.
- Distribution...Taco Bell has increased its points of access (where you can by its products) by a factor of 4 over the last couple of years...including gas stations etc.
-

Target Market(s):

- Current fast food customers (typically male, 14 -34 year olds) and/or
- Health conscious who do not currently purchase fast food??

TYPE OF ORGANIZATIONS THAT USE MARKETING

- Corporations: ie Pepsi, Coke, GM etc.
- Government: promoting the health plan, politicians during elections
- Hospitals.
- Schools.
- Churches.
- Army.
- Postal Service

ORIGINS OF MARKETING

- Division of labour.
- Specialization. Led to the Exchange of goods etc.
- Exchange is key to marketing, without an exchange, there is no need to market.

EXCHANGE AND UTILITY

The criteria needed for an exchange to occur:

- Must have something of value to exchange
- Need to be able to communicate
- Must be able to exchange (under 21 drinking)
- Must want to exchange
- At least 2 people needed for an exchange to occur

The exchange process creates Utility.

Utility is the satisfaction, value, or usefulness a user receives from a good or a service.

When you purchase an automobile, you give up less (in $s) than the value of the car (to you) the ability to get you from A to B, safely, in a timely manner etc.

There are Four Types of Utility

- *Form:* Production of the good, driven by the marketing function. EXAMPLE?? Baskin Robbins turns cream, sugar and milk into ice-cream.
- *Place:* Make product available where customers will buy the product. EXAMPLE?? Food truck at a construction site.
- *Time:* Make product available when customers want to buy the product. EXAMPLE?? Pathmark, open 24 hours a day, 365 days a year, has time utility compared to Landhope Farms etc.
- *Possession:* Once you own the product, do what you want with it, ie. eat it

An example of a service that offers all types of utility: 24 Hour pizza delivery service.

Marketing performs the exchange functions that makes the total utility of the product a reality to consumers.

THE MARKETING MANAGEMENT PHILOSOPHIES

Marketing management can be described as carrying out the tasks that achieve desired exchanges, between the corporation, and its customers.

There are a number a different philosophies that guide a marketing effort.

- *Production Concept* Demand for a product is greater than supply.
  - To increase profit, focus on production efficiencies knowing all output can be sold. Also useful concept when increasing production raises economies of scale etc. to reduce price. Henry Ford, "Doesn't matter what colour car you want, as long as it is black."...A typical quote during the production era.
  - *Dominant era:* From mid C19th to early C20th, industrial revolution etc.

- *Selling Concept* Demand for a product is equal to supply.
  - Emphasis is needed to sell the product to increase profits. Focus on advertising.
  - Useful for unsought goods, i.e., encyclopedias, funeral plots. Political candidates, selling important, not post consumer satisfaction.
  - Dominant era: 1920's to Mid 1930's WWII to early 1950's
- *Marketing Concept* Supply for a product is greater than demand, creating intense competition among suppliers.
  - Company first determines what the consumer wants, then produces what the consumer wants, then sells the consumer what it wants.
  - *Dominant era:* 1930's to WWII 1950's to present.
- *Societal Marketing Concept*: Focus on other stakeholders, as well as the business and its customers. Need to balance 3 items
  - Company profits
  - Customer wants
  - Society's interests

The difference between short term consumer wants and long term consumer welfare.

An example of a company adopting the Societal concept:

Starkist...Dolphin Safe Tuna Actually more expensive than regular tuna, but is more appealing due to society's concerns.

An example of the societal marketing concept...although the ethics of accepting monies from Hooters may be questioned (i.e. exploitation of women??)

For another example of Societal Marketing Concept...Visit the Body Shop and pick up some of their leaflets.

IMPORTANCE OF THE MARKETING CONCEPT

- According to the Customer Service Institute, it costs as much as five times as much to acquire a new customer than it does to service an existing one.

- Customers tell twice as many people about a bad experience over a good one.
- According to the American Marketing Association (AMA), for an average company, 65% of its business comes from its presently satisfied customers.

STRATEGIC MARKET

It is necessary to discuss strategic market planning and marketing early in the course. A strategic market plan gives direction to a firm's efforts and better enables it to understand the dimensions of marketing research, consumer analysis, and product, distribution, promotion, and price planning, which will be discussed in later classes.

We will look at an overview of the strategic marketing process including the development of:

- SWOT Analysis
- Mission Statement
- Organizational Goals
- Corporate Strategy
- Marketing strategy

The strategic market plan is not a marketing plan, it is a plan of all aspects of an organizations strategy in the market place.

The process of strategic market planning yeilds a marketing strategy(s) that is the framework and the development of the marketing plan.

Developing a marketing plan is your group project assignment. A marketing plan deals primarily with implementing the market strategy as it relates to *target market(s)* and the *marketing mix.*

STRATEGIC MARKET PLANNING

A Strategic marketing plan is an outline of the methods and resources required to achieve organizational goals within a specific target market(s).

"Describes the direction [an organization] will pursue within its chosen environment and guides the allocation of resources and effort" - Peter Bennett, Dictionary of Marketing Terms, AMA 1988

Strategic planning requires a general marketing orientation rather than a narrow functional orientation.

All functional areas must include marketing and must be coordinated to reach organizational goals. It is a hierarchal process, from company wide to marketing specific.

Company wide, SBU Specific

A firm can be broken down into several strategic business units. Each SBU is a division, product line, or other profit center within the parent company.

An SBU has its own strategic plan and can be considered a seperate business entity competing with other SBU's for corporate resources.

For example Pepsico Companies SBUs include:

- KFC
- Taco Bell
- Pizza Hut
- Mountain Dew
- Lipton Tea Brands
- Frito Lay

A strategic plan gives:

- Direction and better enables the company to understand mkt. function dimensions
- Makes sure that each division has clear integrated goals
- Different functional areas are encouraged to coordinate
- Assesses SW & OT
- Assesses alternative actions
- It is a basis for allocating company resources
- A procedure to assess company performance

The strategic planning process may include the following, although this differs from one organization to another:

- Develop a SWOT analysis
- Develop Mission Statement that evolves from the SWOT analysis
- Develop Corporate Objectives that are consistent with the organization's mission statement.
- Develop corporate strategy to achieve the organization's objectives.
- Marketing (and other functional objectives) must be designed to achieve the corporate objectives
- Marketing Strategy, designed to achieve the marketing objectives.

The strategic market planning process is based on the establishment of organizational goals and it must stay within the broader limits of the organizations mission, that is developed taking into consideration the environmental opportunities and threats and the companies resources and distinct competancies.

A firm can then assess its opportunities and develop a corporate strategy. Marketing objectives must be designed so that they can be accomplished through efficient use of the firms resources.

Corporate strategy is concerned with issues such as diversification, competition, differentiation, interrelationships between business units and environmental issues. It attempts to match the resources of the organization with the opportunities and risks of the environment (SWOT). Corporate strategy is also concerned with defining the scope and roles of the SBU's of the firm so that they are coordinated to reach the ends desired.

SWOT ANALYSIS

A SWOT Analysis examines the companies:

- *S*trengths...Internal
- *W*eaknesses...Internal

- Opportunites...External
- Threats...External

By developing a SWOT analysis, a company can determine what its distinctive competancies are. This will help determine what the organization *should* be in business for, what its *mission* should be.

MISSION STATEMENT

- Reason to be? Invisible hand etc.
- Product Terms...outdated
- Technology Terms...outdated
- Market Terms...keep in touch with consumer's needs
- i.e. AT&T is in the communications business *not* the telephone business.
- Visa...allows customers to exchange values...not credit cards
- 3M solves problems by putting innovation to work.
- Should not be too narrow...*or*...too broad
- Should be based on distinctive competancies of the corporation, determined from the SWOT analysis

The following are example mission statements

ORGANIZATIONAL GOALS

Organizational goals are derived from the mission, corporate strategy is derived from the organizational goals.

Goals must specify the end results that are desired, that are measurable and within a particular time frame.

SMAC

- *S*pecific
- *M*easurable
- *A*chieveable
- *C*onsistent

CORPORATE STRATEGY

Issues include:

- *Scope of Business*: What Business you are in??
- *Resource deployment*: How you are going to use your resources??
- *Competitive advantage*: What are your competitive advantages??
- Coordination of Production, Marketing, Personnel etc.
- Coordination process??

Tools for Strategic Market Planning

The following are some of the many tools that are used in developing corporate strategy, they are supplements not substitutes for management's own judgement:

- BCG Product Portfolio Management
  - Star
  - Cash Cow
  - Problem Child (Question Marks)
  - Dog
- SWOT analysis
- Product Life Cycle Concept

  A separate strategy is needed for each SBU
- *Intense Growth*-mkt penetration/development, product development in related markets.
  - Market Penetration...more products to the same market
  - Market Development...same product to new markets
  - Product Development...new products to same market
- *Diversified Growth*-new products new markets Horizontal (unrelated products to current markets)/ Concentric (NPNM)

- *Integrated growth* Forward/Backward/Horizontal Disney's Purchase of Capital Citys/ABC, a content provider purchasing distribution
- Market Penetration
- Market Development
- Product Development
- Diversification

MARKETING PLANNING

Marketing plans vary by:

- Duration
- Scope
- Method of Development, bottom up/top down

Objective is to create a Marketing plan. A plan for each marketing strategy developed.

Marketing strategy encompasses selecting and analysing the *target market(s)* and creating and maintaining an appropriate *marketing mix* that satisfies the target market and company. A Marketing strategy articulates a plan for the best use of the organizations resources and tactics to meet its objectives. Do not pursue projects that are outside the companies objectives or that stretch the companies resources.

Plan includes:

- Executive summary
- Situation Analysis
- Opportunity and Threat Analysis
- Environmental Analysis
- Company Resources
- Marketing Objectives
- Marketing Strategies to include:
  - *Target market* (Intended) A target market is group of persons/companies for whom a firm creates and maintains a Marketing Mix that specifically fits the needs and preferences of that group. Does the

company have the resources to create the appropriate MM and does it meet the company's objectives.

- Develop a *marketing mix*-how to reach the target market. The marketing mix is designed around the buying motive-emphasizing the marketing concept. The marketing environment effects the marketing mix, which is only controllable to a certain extent (the MM). Before developing the MM, need to determine the needs of the target market.

- Financial Projections
- Controls and Evaluations

Marketing control process consists of establishing performance standards, evaluating the actual performance by comparing it with the actual standards, and reducing the difference between the desired and actual performance.

MARKETING ENVIRONMENT

Marketing does not occur in a vacuum. The marketing environment consists of external forces that directly and/or indirectly impact the organization.

Changes in the environment create opportunities and threats for the organizations.

Example: PRODIGY (On-line service) ran a commercial 24 hours after the LA earth quake to inform customers/ potential customers that they could contact friends/family in LA through its service when all the telephone lines were jammed. This illustrates a company (Prodigy), reactively responding to an environmental factor (nature), to further market its services to attract new customers.

To track these external forces a company uses environmental scanning. Continual monitoring of what is going on.

Environmental scanning collects information about external forces. It is conducted through the Marketing Information System.

Environmental analysis determines environmental changes and predicts future changes in the environment. The marketing manager should be able to determine possible threats and opportunities from the changing environment. This will help avoid crisis management.

SIX ENVIRONMENTAL FORCES

- Societal
- Regulatory
  - Political
  - Legal
  - Regulatory
- Economic
- Competitive
- Technology
- Natural

Societal Forces

Pressure to create laws

Since marketing activities are a vital part of the total business structure, marketers have a responsibility to help provide what members of society want and to minimize what they don't want.

Important Considerations:

- Marketers need to understand Cultural diversity—By the year 2000 15% of the entering work-force will be white male.
- Great Melting Pot vs. Great Salad Bowl...different cultures maintain own cultural identity.
- Aging population

Change products due to changing needs of society, i.e. Baby Boomers are aging, they demand different attributes/ benefits from their products (cars), i.e. performance and safety, marketers need to respond, as the car marketers have, to satisfy these changing needs.

- Society becomes concerned about marketers actions when those actions are questionable.

REGULATORY: POLITICAL FORCES

Reagan era vs Clinton era. Health care reform impacting on small business.

Pressure on the tobacco industry...threatening to regulate cigarettes like other drugs..."underage sales prohibited" will appear on Philip Morris tobacco products. Philip Morris agrees to stop placing billboard ads. in stadiums that can be viewed on TV....24yr TV advertising ban.

Actions may strengthen the market leaders, Philip Morris. Luxury Tax 10% excise tax on boats over $100,000.

The luxury tax, that was supposed to aid in the redistribution of wealth, as far as taxing the wealthy to help finance government programmes—actually harmed industries that marketed products that were to be taxed...i.e. the boat industry. Tax was created in 1989 and repealed in 1992.

Government purchases about 20% GNP, government is therefore a significant purchaser of many organizations products.

Companies that have relied on the defence industry have had to adapt their technologies to new markets in order to survive. ECC of Wayne, PA has recently begun producing vending machines for Snapple beverages...they had traditionally relied on winning defence contracts.

Develops new legislation, example gasoline tax, welfare reform, health care reform.

Legal interpretation by the courts. Creation and activities of regulatory agencies.

REGULATORY: LEGAL FORCES

Created by the political force In statute.

Three types

- Anti Trust
- Consumer Protection

- Deregulation

The following are important acts to be familiar with:

- Sherman Act (1890) Competition...restraining trade and monopolizing markets
- Clayton Act (1914) Competition...limit specific activities, price discrimination, tying/exclusive agreements etc.
- Federal Trade Commission Act (1914) Created FTC Competition
- Robinson-Patman Act (1936) Competition

Five publishers are being sued by the ABA under the Robinson Patman Act which states:

It is unlawful to discriminate in prices charged to different purchasers [who compete with each other] of the same product, where the effect may substantially lessen competition or help create a monopoly.

There is no question as to the fact that charging different prices for no economic reason would lessen competition, therefore the issue is whether the publishers are being discriminatory. They were offering different prices that may well be justified by quantity discounts which are legal.

- Wheeler-Lea Act (1938) Consumer Protection...unfair and deceptive acts
- Celler-Kefauver Act (1950) Competition...acquisition of competitors shares if...
- Consumer Goods Pricing Act (1975) Competition... price maintenance among mf. and resellers
- Trademark Counterfeiting Act (1980) Consumer protection, counterfeit goods
- Nutritional Labeling and Education Act (1990) Consumer protection...health claims, labelling May 1994, marketers had to follow new guidelines for explaining the contents of products on labels:

  Juice drinks...specify actual juice content

  Ben & Jerry's: Pringles Right Crisps vs. Light Crisps.

- Clean Air Act (1990) Emissions credits now being given to companies that reduce their pollution below a specified threshold, can trade these credits to companies that have been unable to fall below the requirements, so that they avoid heavy fines etc.

REGULATORY FORCES

Governing Legal Forces

Business can be governed at the following level:

- Federal Level
- State Level
- Local Level
- Self-regulation

Examples of Federal Regulatory agencies:

- Federal Trade Commission FTC...Governs commerce
- Federal Communications Commission FCC Governs the airwaves...Howard Stern etc.
- Food & Drug Administration FDA...Governs new labeling law etc.
- Bureau of Alcohol and Tobacco ATF...Recent conflict with the marketers of ice beer focusing on alcohol content.

ECONOMIC FORCES

Business life cycles:

- Prosperity
- Recession
- Depression
- Recovery

Marketers may need to adjust their marketing mix as the economy passes through different stages.

Different between a depression and recession = the number of months certain economic figures decline etc., but different economists use different indicators.

Political force...Government uses fiscal and monetary policy to control the economy.

Fed: Alan Greenspan increased interest rates to try to curb excessive growth that would lead to inflation, has now reduced the rates since the economy has not shown the signs of anticipated inflation.

Interest rates have a big impact on COST OF MONEY...Business investment....consumer spending.

Consumer buying power determined by income (Interest, Rent, wages):

- Pre-tax Income—*Gross* Income
- After Tax income—*Disposable* income
- After purchasing necessities—*Discretionary* income

Consumer demand and spending patterns are effected by the economy and the perception of the future. Need to determine:

- Consumer buying power
- Willingness to purchase, a function of employment security etc. Credit, increases current buying power over future buying power.

COMPETITIVE FORCES

All firms compete for consumers dollars.

It is not only important to focus on your direct competitors (gum marketers) but also all marketers that target your customers and therefore compete with you for their income.

Competitive Structures:

- *Monopoly*: One marketer in the marketplace. Governed by Sherman Anti Trust Act.

  Sometimes it is to the consumers benefit to have a monopoly; when competition would raise the price to the consumer (high barriers of entry to the marketplace being passed along etc.), i.e. Utilities...DP&L.

  DP&L must get permission from the Public Services Commission (regulatory agency) before it can raise prices etc.

- *Oligopoly*: A few marketers (perhaps 3 or 4) dominate the market place. Examples: Cigarettes...Marlboro example, in 1 day, reduced the price by 20%, all competitors immediately followed. Airline Industry...$50 cap on commissions led by Delta, within one week all major airlines followed.

  Looks at the commercial on-line service industry and the threat of Microsoft to the balance of the industry.
- *Monopolistic Competition*: many marketers competing in the market place. Most common market structure. Need to establish a differential advantage, i.e., trade mark, brand name, some reason for consumers to purchase your product as opposed to your competition's product.
- *Perfect Competition*: all competitors are equal and have equal access to the market place. Very rare!! Commodities, unregulated agriculture market. Distribution is key.

TECHNOLOGICAL FORCES

From research performed by businesses, universities and non-profit organizations.

Consumers technological knowledge influences their desires for goods and services.

Examples of +ve results of changing technology:

- Change in transportation methods have enabled the development of out of town shopping centers.
- Inventory control systems make companies more efficient, this cost efficiency can be passed onto the consumer. It has helped develop relationships with suppliers and their supplied.
- Improved standard of living achieved by increased leisure time
- Fax machines
- Medicine
- Being able to read this

Examples of -ve consequences of technological change:

- Environmentally unclean pollution
- Unemployment (employment shifts leading to temporary unemployment.)
- Misuse of information

Patent protection leads to a barrier to entry, monopoly. Without it companies may be unwilling to launch new products that incorporate new technologies for fear of copying, therefore nothing is gained.

NATURE

Examples:

- Hurricane ANDREW
- Floods
- Severe winter
- Humid Summer...Drought

ENVIRONMENTAL RESPONSES

Two ways to respond to the environment:

- Reactive response- Change your marketing mix in response to environmental changes.

Most common type of response.

- Proactive response- Try to change the environment. Example would be lobbying.

A good example of a proactive response, try to change the (legal) environment to fit the company's marketing mix.

CONSUMER BUYING BEHAVIOUR

Buying Behaviour is the decision processes and acts of people involved in buying and using products.

Need to understand:

- Why consumers make the purchases that they make?
- What factors influence consumer purchases?
- The changing factors in our society.

Consumer Buying Behaviour refers to the buying behaviour of the ultimate consumer. A firm needs to analyze buying behaviour for:

- Buyers reactions to a firms marketing strategy has a great impact on the firms success.
- The marketing concept stresses that a firm should create a *Marketing Mix* (MM) that satisfies (gives utility to) customers, therefore need to analyze the what, where, when and how consumers buy.
- Marketers can better predict how consumers will respond to marketing strategies.

STAGES OF THE CONSUMER BUYING PROCESS

Six Stages to the Consumer Buying Decision Process (For complex decisions). Actual purchasing is only one stage of the process. Not all decision processes lead to a purchase. All consumer decisions do not always include all 6 stages, determined by the degree of complexity...discussed next.

The 6 stages are:

1. *Problem Recognition*(awareness of need)—difference between the desired state and the actual condition. Deficit in assortment of products. Hunger—Food. Hunger stimulates your need to eat.

   Can be stimulated by the marketer through product information—did not know you were deficient? I.E., see a commercial for a new pair of shoes, stimulates your recognition that you need a new pair of shoes.
2. *Information search*—
   - Internal search, memory.
   - External search if you need more information. Friends and relatives (word of mouth). Marketer dominated sources; comparison shopping; public sources etc.

   A successful information search leaves a buyer with possible alternatives, the *evoked set*.

Hungry, want to go out and eat, evoked set is

- Chinese food
- Indian food
- Burger king
- Klondike kates etc

3. *Evaluation of Alternatives*—need to establish criteria for evaluation, features the buyer wants or does not want. Rank/weight alternatives or resume search. May decide that you want to eat something spicy, indian gets highest rank etc.

   If not satisfied with your choice then return to the search phase. Can you think of another restaurant? Look in the yellow pages etc. Information from different sources may be treated differently. Marketers try to influence by "framing" alternatives.

4. *Purchase decision*—Choose buying alternative, includes product, package, store, method of purchase etc.
5. *Purchase*—May differ from decision, time lapse between 4 & 5, product availability.
6. *Post-Purchase Evaluation*—outcome: Satisfaction or Dissatisfaction. *Cognitive Dissonance*, have you made the right decision. This can be reduced by warranties, after sales communication etc.

After eating an indian meal, may think that really you wanted a chinese meal instead.

TYPES OF CONSUMER BUYING BEHAVIOUR

Types of consumer buying behaviour are determined by:

- Level of Involvement in purchase decision. Importance and intensity of interest in a product in a particular situation.
- Buyers level of involvement determines why he/she is motivated to seek information about a certain products and brands but virtually ignores others.

High involvement purchases—Honda Motorbike, high priced goods, products visible to others, and the higher the risk the higher the involvement. Types of risk:

- Personal risk
- Social risk
- Economic risk

The four type of consumer buying behaviour are:

- Routine Response/Programmed Behaviour—buying low involvement frequently purchased low cost items; need very little search and decision effort; purchased almost automatically. Examples include soft drinks, snack foods, milk etc.
- Limited Decision Making—buying product occasionally. When you need to obtain information about unfamiliar brand in a familiar product category, perhaps. Requires a moderate amount of time for information gathering. Examples include Clothes—know product class but not the brand.
- Extensive Decision Making/Complex high involvement, unfamiliar, expensive and/or infrequently bought products. High degree of economic/performance/psychological risk. Examples include cars, homes, computers, education. Spend alot of time seeking information and deciding.

  Information from the companies MM; friends and relatives, store personnel etc. Go through all six stages of the buying process.
- Impulse buying, no conscious planning.

The purchase of the same product does not always elicit the same Buying Behaviour. Product can shift from one category to the next.

For example: Going out for dinner for one person may be extensive decision making (for someone that does not go out often at all), but limited decision making for someone else. The reason for the dinner, whether it is an anniversary celebration, or a meal with a couple of friends will also determine the extent of the decision making.

CATEGORIES THAT EFFECT THE CONSUMER BUYING DECISION PROCESS

A consumer, making a purchase decision will be affected by the following three factors:

1. Personal
2. Psychological
3. Social

The marketer must be aware of these factors in order to develop an appropriate MM for its target market.

PERSONAL

Unique to a particular person. Demographic Factors. Sex, Race, Age etc.

Who in the family is responsible for the decision making.

Young people purchase things for different reasons than older people.

PSYCHOLOGICAL FACTORS

Psychological factors include:

Motives

A motive is an internal energizing force that orients a person's activities toward satisfying a need or achieving a goal.

Actions are effected by a set of motives, not just one. If marketers can identify motives then they can better develop a marketing mix.

MASLOW hierarchy of needs!!

- Physiological
- Safety
- Love and Belonging
- Esteem
- Self Actualization

Need to determine what level of the hierarchy the consumers are at to determine what motivates their purchases.

Nutrament, a product marketed by Bristol-Myers Squibb originally was targeted at consumers that needed to receive additional energy from their drinks after exercise etc., a fitness drink. It was therefore targeted at consumers whose needs were for either *love and Belonging* or *esteem*. The product was not selling well, and was almost terminated. Upon extensive research it was determined that the product did sell well in inner-city convenience stores. It was determined that the consumers for the product were actually drug addicts who couldn't not digest a regular meal.

They would purchase Nutrament as a substitute for a meal. Their motivation to purchase was completely different to the motivation that B-MS had originally thought. These consumers were at the *Physiological* level of the hierarchy. BM-S therefore had to redesign its MM to better meet the needs of this target market.

Motives often operate at a subconscious level therefore are difficult to measure.

Perception

What do you see?? Perception is the process of selecting, organizing and interpreting information inputs to produce meaning. IE we chose what info we pay attention to, organize it and interpret it.

Information inputs are the sensations received through sight, taste, hearing, smell and touch.

Selective Exposure-select inputs to be exposed to our awareness. More likely if it is linked to an event, satisfies current needs, intensity of input changes (sharp price drop).

Selective Distortion-Changing/twisting current received information, inconsistent with beliefs.

Advertisers that use comparative advertisements (pitching one product against another), have to be very careful that consumers do not distort the facts and perceive that the advertisement was for the competitor. A current example...MCI and AT&T...do you ever get confused?

Selective Retention-Remember inputs that support beliefs, forgets those that don't.

Average supermarket shopper is exposed to 17,000 products in a shopping visit lasting 30 minutes-60% of purchases are unplanned. Exposed to 1,500 advertisement per day. Can't be expected to be aware of all these inputs, and certainly will not retain many.

Ability and Knowledge

Need to understand individuals capacity to learn. Learning, changes in a person's behaviour caused by information and experience. Therefore to change consumers' behaviour about your product, need to give them new information re: product...free sample etc.

South Africa...open bottle of wine and pour it!! Also educate american consumers about changes in SA. Need to sell a whole new country.

When making buying decisions, buyers must process information.

Knowledge is the familiarity with the product and expertise.

Inexperience buyers often use prices as an indicator of quality more than those who have knowledge of a product.

Non-alcoholic Beer example: consumers chose the most expensive six-pack, because they assume that the greater price indicates greater quality.

Learning is the process through which a relatively permanent change in behaviour results from the consequences of past behaviour.

Attitudes

Knowledge and positive and negative feelings about an object or activity-maybe tangible or intangible, living or non-living.

Individual learns attitudes through experience and interaction with other people.

Consumer attitudes toward a firm and its products greatly influence the success or failure of the firm's marketing strategy.

Oldsmobile vs. Lexus, due to consumers attitudes toward Oldsmobile (as discovered by class exercise) need to disassociate Aurora from the Oldsmobile name.

Exxon Valdez-nearly 20,000 credit cards were returned or cut-up after the tragic oil spill.

Honda "You meet the nicest people on a Honda", dispel the unsavory image of a motorbike rider, late 1950s. Changing market of the 1990s, baby boomers aging, Hondas market returning to hard core. To change this they have a new slogan "Come ride with us".

Attitudes and attitude change are influenced by consumers personality and lifestyle.

Consumers screen information that conflicts with their attitudes. Distort information to make it consistent and selectively retain information that reinforces our attitudes. IE brand loyalty.

There is a difference between attitude and intention to buy (ability to buy).

Personality

All the internal traits and behaviours that make a person unique, uniqueness arrives from a person's heredity and personal experience. Examples include:

- Workaholism
- Compulsiveness
- Self confidence
- Friendliness
- Adaptability
- Ambitiousness
- Dogmatism
- Authoritarianism
- Introversion

- Extroversion
- Aggressiveness
- Competitiveness.

Traits effect the way people behave. Marketers try to match the store image to the perceived image of their customers.

There is a weak association between personality and Buying Behaviour, this may be due to unreliable measures. Nike ads. Consumers buy products that are consistent with their self concept.

Lifestyles

Recent US trends in lifestyles are a shift towards personal independence and individualism and a preference for a healthy, natural lifestyle.

Lifestyles are the consistent patterns people follow in their lives.

Example healthy foods for a healthy lifestyle. Sun tan not considered fashionable in US until 1920's. Now an assault by the American Academy of Dermatology.

SOCIAL FACTORS

Consumer wants, learning, motives etc. are influenced by opinion leaders, person's family, reference groups, social class and culture.

Opinion Leaders

Spokespeople etc. Marketers try to attract opinion leaders...they actually use (pay) spokespeople to market their products. Michael Jordon (Nike, McDonalds, Gatorade etc.)

Roles and Family Influences

Role...things you should do based on the expectations of you from your position within a group.

People have many roles.

Husband, father, employer/ee. Individuals role are continuing to change therefore marketers must continue to update information.

Family is the most basic group a person belongs to. Marketers must understand:

- That many family decisions are made by the family unit
- Consumer behaviour starts in the family unit
- Family roles and preferences are the model for children's future family (can reject/alter/etc)
- Family buying decisions are a mixture of family interactions and individual decision making
- Family acts an interpreter of social and cultural values for the individual.

The Family life cycle: families go through stages, each stage creates different consumer demands:

- Bachelor stage...most of BUAD301
- Newly married, young, no children...me
- Full nest I, youngest child under 6
- Full nest II, youngest child 6 or over
- Full nest III, older married couples with dependant children
- Empty nest I, older married couples with no children living with them, head in labour force
- Empty nest II, older married couples, no children living at home, head retired
- Solitary survivor, in labour force
- Solitary survivor, retired
- Modernized life cycle includes divorced and no children.

Reference Groups

Individual identifies with the group to the extent that he takes on many of the values, attitudes or behaviours of the group members.

Families, friends, sororities, civic and professional organizations.

Any group that has a positive or negative influence on a persons attitude and behaviour.

Membership groups (belong to)

Affinity marketing is focused on the desires of consumers that belong to reference groups. Marketers get the groups to approve the product and communicate that approval to its members. Credit Cards etc.!!

Aspiration groups (want to belong to)

Disassociate groups (do not want to belong to)

Honda, tries to disassociate from the "biker" group.

The degree to which a reference group will affect a purchase decision depends on an individuals susceptibility to reference group influence and the strength of his/her involvement with the group.

Social Class

An open group of individuals who have similar social rank. US is not a classless society. US criteria; occupation, education, income, wealth, race, ethnic groups and possessions.

Social class influences many aspects of our lives. IE upper middle class Americans prefer luxury cars Mercedes.

- Upper Americans-upper-upper class, .3%, inherited wealth, aristocratic names.
- Lower-upper class, 1.2%, newer social elite, from current professionals and corporate elite
- Upper-middle class, 12.5%, college graduates, managers and professionals
- Middle Americans-middle class, 32%, average pay white collar workers and blue collar friends
- Working class, 38%, average pay blue collar workers
- Lower Americans-lower class, 9%, working, not on welfare
- Lower-lower class, 7%, on welfare

Social class determines to some extent, the types, quality, quantity of products that a person buys or uses.

Lower class people tend to stay close to home when shopping, do not engage in much prepurchase information gathering.

Stores project definite class images.

Family, reference groups and social classes are all social influences on consumer behaviour. All operate within a larger culture.

Culture and Sub-culture

Culture refers to the set of values, ideas, and attitudes that are accepted by a homogenous group of people and transmitted to the next generation.

Culture also determines what is acceptable with product advertising. Culture determines what people wear, eat, reside and travel. Cultural values in the US are good health, education, individualism and freedom. In american culture time scarcity is a growing problem. IE change in meals. Big impact on international marketing.

No...but that is my opinion!!...Tea is a part of the British culture, hot with milk.

Different society, different levels of needs, different cultural values.

Culture can be divided into subcultures:

- Geographic regions
- Human characteristics such as age and ethnic background.

IE West Coast, teenage and Asian American.

Culture effects what people buy, how they buy and when they buy.

Understanding Consumer Buying Behaviour offers consumers greater satisfaction (Utility). We must assume that the company has adopted the Marketing Concept and are consumer oriented.

MARKETING RESEARCH

In order to implement the marketing concept, marketers require information about the characteristic, needs, wants and desires of their target markets.Marketing research is the process of defining a marketing problem & opportunity, systematically collecting and analyzing information, & recommending actions to increase an organizations marketing activities.It is the function that links the consumer (customer) and public to the marketer through information.

Need to approach the research in a logical manner. Difference between good and bad research can depend on the quality of the inputs.

- Must be conducted in a systematic manner
- Involves a series of steps/processes
- Data may be available from different sources
- Research applies to any aspect of marketing that needs information
- Findings must be communicated to the appropriate decision maker

There are 5 steps in the marketing research process, it is an overall approach, not a rigid set of rules.

DEFINING AND LOCATING THE PROBLEM

Usually a departure from some normal function, IE conflicts between or failures in attaining objectives. (goals may be unrealistic) Need to probe beneath the superficial symptoms.

Research objective specifies what information is needed to solve the problem.

Marketing Plan...to determine the unfulfilled needs/wants within specified target market(s). (University students/local residents)

May need to use exploratory research here, before conclusive research.

Therefore query news group with your ideas to better define your research needs perhaps, refine your ideas before developing your hypothesis!!

ASSESS THE DECISION FACTORS

Different sets of variables, alternatives and uncertainties that combine to give the outcome of a decision.

Alternatives—decision maker has control

Uncertainties—uncontrollable factors

Decision maker must:

1. Determine the principal alternatives that can be considered reasonable approaches to solving the problem...i.e. reasonable outcomes of research.
2. The major uncertainties that can affect particular alternative and result in it being a Good or Poor Solution to a Problem.

COLLECT RELEVANT INFORMATION

Drawn from previous research and expected research findings. An informed guess or assumption about a certain problem or a set of circumstances.

Residents of Newark, DE, as well as students of the University of Delaware would frequent a Bagel Store.

As information is gathered researchers can test the hypothesis. Can have more than one hypothesis in a study.

Collecting the Data

Two types of data, Primary, Secondary inside or outside the organization.

Secondary Data Collection

Internal database data. Accounting data, government data, magazines, survey of buying power, syndicated data services.

PRO Inexpensive, quick to obtain, multiple sources available, obtain info. that cannot be obtained through primary research, independent therefore credible.

CON maybe incomplete, dated, obsolete, methodology maybe unknown, all findings may not be public, reliability may be unproven.

Sources: internal = budgets, sales figures, profit and loss statement, all research reports.

External = government, must consider dates, census of population/manufacturing/retail trade, regular publications, IE Wall Street Journal, Business Week, Commercial research houses: for a fee as a subscriber IE AC Nielsen.

Primary Data Collection

Information *"collected specifically for the purpose of the investigation at hand"*, Dictionary of Marketing Terms. When a thorough analysis of secondary research provides insufficient information for a marketing decision to be made.

PRO Fits the precise purpose of the organization, information is current, methodology is controlled and known, available to firm and secret from competitors, no conflicting data from different sources, reliability can be determined, only way to fill a gap.

CON Time consuming, costly, some information cannot be collected.

Research Design

The frame work or plan for a study that guides the collection and analysis of data, it includes:

- Who collects the data?
- What should be collected?
- Who or what should be studied?
- What technique of data collection should be used?
- How much will the study cost?
- How will data be collected (personnel)?
- How long will data collection be?

Gathering Data

To select representative units from a total population.

A *population* "universe", all elements, units or individuals that are of interest to researchers for a specific study. IE all registered voters for an election.

Sampling procedures are used in studying the likelihood of events based on assumptions about the future.

- Random sampling, equal chance for each member of the population
- Stratified sampling, population divided into groups re: a common characteristic, random sample each group
- Area sampling, as above using areas
- Quota sampling, judgmental, sampling error cannot be measured statistically, mainly used in exploratory studies to develop a hypotheses, non-probablistic.

Survey to news group is an example of quota sampling...will be non-probablistic.

Survey Methods

- Mail-wide area, limited funds, need incentive to return the questionnaire Mail panels, consumer purchase diaries. Must include a cover letter to explain survey!! news group...electronic survey
- Telephone-speed, immediate reaction is negative, WATS, computer assisted telephone interviewing.
- Personal interviews-flexibilty, increased information, non-response can be explored. Most favoured method among those surveyed. Can be conducted in shopping malls.
- In home (door-to-door) interview, get more information but it is costly and getting harder to accomplish.
- Mall intercepts-interview a % of people passing a certain point. Almost half of major consumer goods and services orgs. use this technique as a major

expenditure. Can use demonstration, gauge visual reactions. Regarding social behaviour, mall surveys get a more honest response than telephone surveys. There is a bias toward those that spend alot of time in malls. Need to weight for this. On site computer interviewing, respondents complete self administered questionnaires conducted in shopping malls. Questions can be adaptive depending on the responses.

- Focus groups-observe group interaction when members are exposed to an idea or concept, informal, less structured. Consumer attitudes, behaviours, lifestyles, needs and desires can be explored in a flexible and creative manner. Questions are open ended. Cadillac used this method to determine that they should be promoting safety features.

Designed to elicit information that meets the studies requirements. Questions should be:

- Clear
- Easy to understand
- Directed towards meeting an objective.

Need to define objectives before designing the questionnaire. Must maintain impartiality and be very careful with personal data. Four basic types of questions are:

- Open ended
- Dichotomous
- Multiple choice.
- Scaled (lickert)

Observation Methods

Record overt behaviour, note physical conditions and events. "How long does a McDonald's customer have to wait in line". Can be combined with interviews, IE get demographic variables. To avoid bias must avoid being seen.

Mechanical observation devices, IE cameras, eye movement recorders, scanner technology, Nielsen techniques for media.

Observation avoids the central problem of survey methods, motivating respondents to state their true feelings or opinions. If this is the only method, then there is no data indicating the causal relationships.

FIND A SOLUTION

The best alternative that has been identified to solve the problem.

EVALUATE THE RESULTS

Coke, do the results make sense, don't always accept them at face value.

MARKET

A market is: An aggregate of people who, as individuals or organizations, have needs for products in a product class and who have the ability, willingness and authority to purchase such products.

Types of Markets

1. *Consumer* Intend to consume or benefit, but not to make a profit.
2. *Organizational/Business* For:
   - Resale
   - Direct use in production
   - *or* general daily operations.
3. Product Attributes:
   - High Powered
   - Roomy
   - Safety Features
4. Product:
   - Toyota Avalon
   - Oldsmobile Aurora
   - Mercury Mystique
   - Dodge Intrepid
   - Chrysler Concorde
   - Vision

DEVELOPING A TARGET MARKET STRATEGY

Developing a Target Market Strategy has three Phases

1. Analyzing consumer demand
2. Targeting the market(s)
   - Undifferentiated
   - Concentrated
   - Multisegmented
3. Developing the marketing strategy

SELECTING TARGET MARKETS (ANALYZING DEMAND)

Need to aggregate consumers with similar needs.

Demand patterns: Do all potential customers have similar needs/desires or are there clusters? Types of demand patterns are:

- *Homogeneous Demand*-uniform, everyone demands the product for the same reason(s). Very rare in the US, staple foods...
- *Clustered Demand*-consumer demand classified in 2 or more identifiable clusters. IE Automobiles:
  - Luxury
  - Cheap
  - Sporty
  - Spacious
- *Diffused Demand*-Product differentiation more costly and more difficult to communicate IE Cosmetic market, need to offer hundreds of shades of lipstick. Firms try to modify consumer demand to develop clusters of at least a moderate size. Or uses one MM.

TOTAL MARKET APPROACH

Single Marketing Mix for the entire market. All consumers have similar needs for a specific kind of product. Homogeneous market, or demand is so diffused it is not worthwhile to differentiate, try to make demand more homogeneous.

Single Marketing Mix consists of:

- 1 Pricing strategy
- 1 Promotional programme aimed at everybody
- 1 Type of product with little/no variation
- 1 Distribution system aimed at entire market

The elements of the marketing mix do not change for different consumers, all elements are developed for all consumers.

Examples include Staple foods-sugar and salt and farm produce. Henry Ford, Model T, all in black.

Popular when large scale production began. Not so popular now due to competition, improved marketing research capabilities, and total production and marketing costs can be reduced by segmentation.

Organization must be able to develop and maintain a single marketing mix.

Major objective is to maximize sales.

MARKET SEGMENTATION APPROACH

Individuals with diverse product needs have heterogeneous needs.

Market segmentation is the process of dividing a total market into market groups consisting of people who have relatively similar product needs, there are clusters of needs.

The purpose is to design a MM(s) that more precisely matches the needs of individuals in a selected market segment(s).

A market segment consists of individuals, groups or organizations with one or more characteristics that cause them to have relatively similar product needs.

There are two Market Segmentation Strategies.

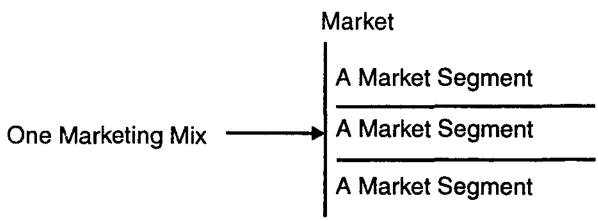
CONCENTRATION STRATEGY

A single market segment with one Marketing Mix.

PROS include:

- It allows a firm to specialize
- can focus all energies on satisfying one group's needs
- A firm with limited resources can compete with larger organizations.

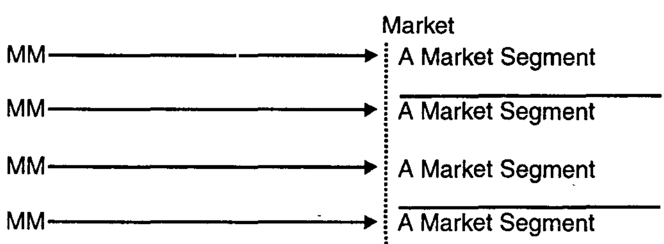
CONS include:



- Puts all eggs in one basket.
- Small shift in the population or consumer tastes can greatly effect the firm.
- May have trouble expanding into new markets (especially up-market). Haggar having problems finding someone to license their name for womens apparel, even though women purchase 70% Haggar clothes for men.

Objective is not to maximize sales, it is efficiency, attracting a large portion of one section while controlling costs.

MULTI-SEGMENT STRATEGY



2 or more segments are sought with a Marketing Mix (MM) for each segment, different marketing plan for each

segment. This approach combines the best attributes of undifferentiated marketing and concentrated marketing.

Example: Marriott International:

1. Marriott Suites...Permanent vacationers
2. Fairfield Inn...Economy Lodging
3. Residence Inn...Extended Stay
4. Courtyard By Marriott...Business Travellers

PROS include:

- Shift excess production capacity.
- Can achieve same market coverage as with mass marketing.
- Price differentials among different brands can be maintained Contact Lens.
- Consumers in each segment may be willing to pay a premium for the tailor-made product.
- Less risk, not relying on one market.

CONS include:

- Demands a greater number of production processes.
- Costs and resources and increased marketing costs through selling through different channels and promoting more brands, using different packaging etc.
- Must be careful to maintain the product distinctiveness in each consumer group and guard its overall image (Contact lenses)

Discusses the individual branding of contact lenses.

3 brands:

- Sequence2 $7-$9
- Medalist $15-$25
- Optima $70

The core product is the same, use different Packaging, Brand Name, Price to differentiate and create a different marketing mix.

What will happen if consumers find out??

Objective: Sales maximization, but can remain a specialist. Can get firmly established in one segment, then pursue another.

CRITERIA NEEDED FOR SEGMENTATION

For segmentation to occur:

1. Segments must have enough profit potential to justify developing and maintaining a MM
2. Consumer must have heterogeneous (different) needs for the product.
3. Segmented consumer needs must be homogeneous (similar)
4. Company must be able to reach a segment with a MM, IE Review to reach Delaware undergraduates.

   How do marketers reach children?

- Cartoons on saturday
- Nickelodian
- Cereal boxes
- Sports illustrated for kids

  Look at how media has changed recently due to changing demographics etc. and therefore the need of marketers to reach these groups.

  Media must respond because they are essentially financed by the marketers or at least heavily subsidised

  Indicates how media format changes due to changing population needs.

5. Must be able to measure characteristics & needs of consumers to establish groups.

VARIABLES THAT CAN BE USED TO SEGMENT MARKETS

Need to determine the variables that distinguish marketing segments from other segments.

- Segmentation variables should be related to consumer needs for, and uses of, or behaviour toward the product. IE Stereo; age not religion.
- Segmentation variable must be measurable. No best way to segment the markets. Selecting inappropriate variable limits the chances of success.

Variables for segmenting Consumer Markets include:

- *Demographic* - age, sex, fertility rates, migration patterns, and mortality rates, ethnicity, income, education, occupation, family life cycle, family size, religion and social class.

Photography companies identify a new target market (children) to market their product to, current sales are declining with current target market due to advances in technology (video cameras etc.)

Families have more income and less time...esp. for children!!

Travel agents developing a MM to attract grandparents, *not* senior citizens!!

- *Geographic*: Climate, terrain, natural resources, population density, subcultural values, different population growths in different areas.

City size

- Metropolitan Statistical Area
- Primary Statistical Metropolitan Area
- Consolidated Metropolitan Statistical Area

Market density-# of potential customers within a unit of land.

Geographic breakdown of the wealth/well being of the US.

- *Psychographic* - personality characteristics, motives and lifestyles

Marketers must be aware of the changing lifestyles and market products accordingly.

- *Behaviouristic Variables* - Regular users-potential users-non users Heavy/moderate/light users, 80-20 rule
- Frequent User Incentives: It is five x more expensive to attract a new customer, as it is to satisfy your current customers.

Benefits segmentation-focus on benefits rather than on features.

SINGLE VARIABLE VS. MULTI-VARIABLE SEGMENTATION

- *Single variable*—achieved by using only one variable to segment
- *Multi-variable*— more than one characteristic to divide market.

Provides more information about segment. Able to satisfy customers more precisely. More variables creates more segments reducing the sales potential in each segment.

Will additional variables help improve the firms MM. If not there is little reason to spend more money to gain information from extra variables.

Madison Avenue has identified a new target market to market products to.

RELATIONSHIP MARKETING DEFINITION

Organizations efforts to develop a long term, cost effective link with individual customers for mutual benefit.

Indicate the developments and benefits of relationship marketing.

3 key elements link the organization to its customers:

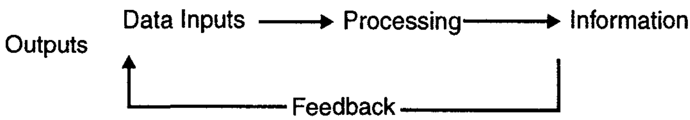
- Information Technology
- Micro Marketing
- Relationship Marketing

Information Technology (IT)

IT designed computer and communication systems to satisfy organizations information needs.

Marketing Research is the information gathering arm of IT.

IT is the framework for the day-to-day management and structuring of information gathered regularly from sources outside and inside the organization:



Data → Processing → Information

Difference between DATA and INFORMATION... Effective IT.

Provides a continuous flow of information, re: prices, advertising expenses, sales, competition and distribution expenses.

Inputs:

- Accounting records
- Information from 1-800 #s
- Transaction Information
- Frequent User Programmes
- Public Information
- Survey Information

Processing-classifying information and developing categories for meaningful storage and retrieval. Marketers can then determine which information-the *output*-is useful for decision making. *Feedback* enables adjustments to the input.

Recent Developments in IT:

- Enabled marketers to effectively utilize the information they have been storing for years, but have not been able to use, it was therefore *data,* not *information.*
- Processing element of IT has allowed marketers to merge (essentially) their transactional databases with their customer profile databases.

- Customer relations, locate/identify problems more quickly. Identify problem in 10 calls, not 10,000
- Customer service reps on 1-800 lines have computer info
- Customer service major IT expense
- Lower inventory costs...renegotiate with suppliers etc.
- $1bn spent in 1994 on IT

Micro Marketing (Database marketing)

An Organizations efforts to collect:

- Demographic
- Media
- Consumption profiles of customers.

In order to target customers more efficiently marketers can use multi variable segmentation incorporating *Buyer Behaviour* information and *Demographic* information.

What people have done in the passed (Purchase) is a better predictor to future behaviour than any other characteristic/ variable

Media...direct mail...catalogs

Relationship Marketing...one-to-one...long-term

Old model, sell one product to as many customers as possible (target market).

New model, sell as many products to one person, one-to-one

Focus on the life-time value of the customer (LVC) instead of the individual transaction.

Customers always had a 1 2 1 relationship with companies, now companies have the technology to have a 1 2 1 (few) relationship with their customers.

EVALUATING THE MARKETS AND SALES FORECASTING

Need to measure the sales potential of the chosen markets.

Market Potential—Industry wide, need to specify time frame and level of industry marketing activities.

Sales Potential—Maximum % of Mkt. potential that a single firm within an industry expects to obtain - absolute limit.

Breakdown approach: economic-mkt. potential-sales potential

Buildup approach: # of potential buyers purchases * # buyers in area, same for each area, then add areas to calculate total market potential. Then estimate the proportion for the company.

Sales penetration= Actual sales/Sales potential

DEVELOPING SALES FORECASTS

Sales forecast is the amount of a product that a company actually expects to sell during a specific period at a specified level of marketing. Actual instead of potential. Can be short term, medium term or long term.

Methods: Choice depends on costs, type of product, characteristics of market, time span of the forecast, purpose of the forecast, stability of historical data, availability of required information and forecasters expertise and experience.

- Executive judgement—swayed by recent experience, based only on passed experience
- Surveys—Customer, good when only a few customers (business markets), expensive, rely on customer estimates. Sales forecast surveys, expert forecast surveys
- Time Series Analysis—trend, cycle, seasonal and random factor
- Correlation method, regression analysis, indicates association not causal relationships.
- Market tests, actual vs. intended. Can see changes in MM. Other companies can manipulate, other companies can see offering.

Marketers will generally use more than one method.

We are now focusing on the major elements of the marketing mix, the ingredients of the marketing mix.

First element...The Product.

Product Planning refers to the systematic decision making related to all aspects of the development and management of a firms products including branding and packaging.

Each product includes a bundle of attributes capable of exchange and use.

Product definition: A product is a good, service, or idea consisting of a bundle of tangible and intangible attributes that satisfies consumers and is received in exchange for money or some other unit of value.

DIFFERENCES BETWEEN GOODS AND SERVICES

Goods are tangible. You can see them, feel them, touch them etc. *Services* are intangible. The result of human or mechanical efforts to people or objects.

Major Distinguishing Characteristics of Services

- *Intangibility*-major component of a service is intangible
- *Pershibality*-many cannot be stored for future sales Airline/Amusement ride

Number of hair cut hours in one week: i.e., if Christies employs 3 people, who work forty hours per week, they have potentially 120 hair cut hours to offer. If they do not have any customers at a particular period during the day, they will lose the opportunity to cut hair at that time *and therefore the opportunity to generate revenue*...the opportunity has perished...they no longer have the ability to earn revenue from 120 hair cut hours that week.

- *Inseparability*-customer contact is often the integral part of the service...Legal services/hair dresser, therefore often a direct channel of distribution.
- *Variability*-in service quality, lack of standardization, because services are labour intensive.

Sales of goods and services are frequently connected, i.e. a product will usually incorporate a tangible component (good) and an intangible component.

LEVELS OF PRODUCT

There are 3 levels of products

- *Core Product-* Marketers must first define what the core BENEFITS the product will provide the customer.
- *Actual Product-*Marketer must then build the actual product around the core product. May have as many as five characteristics:
  - Quality level
  - Features
  - Brand name
  - Packaging all combined to carefully deliver the core benefit(s).
- *Augmented Product-*offer additional consumer benefits and services.
  - Warranty
  - Customer training

Example Sony Camcorder:

- Core—the ability to take video pictures conveniently
- Actual—Sony Handycam (brand name), packaged, convenient design so you can hold it, play back features etc. that provide the desired benefits, high quality etc.
- Augmented—receive more than just the camcorder. Give buyers a warranty on parts and workmanship, free lessons on how to use the camcorder, quick repair service when needed and toll free telephone number when needed.

Marketers must first identify the *core* consumer needs (develop core product), then design the *actual* product and find ways to *augment* it in order to create the bundle of benefits that will best satisfy the customer.

CLASSIFYING PRODUCTS

Products can be classified depending on who the final purchaser is.

Components of the marketing mix will need to be changed depending on who the final purchaser is.

- *Consumer* products: destined for the final consumer for personal, family and household use.
- *Business to business* products: are to satisfy the goals of the organization.

The same product can be purchased by both, for example a computer, for the home or the office.

The following are Classifications for Consumer Products

- *Convenience*: Packaging is important to sell the product. Consumers will accept a substitute. Marketers focus on intense distribution, time utility. Convenience products can be categorized into staple (milk), impulse (not intended prior to shopping trip).
- *Shopping*: Consumers expend considerable effort planning and making purchase decisions. IE appliances, stereos, cameras. Consumers are not particularly brand loyal. Need producer intermediary cooperation, high margins, less outlets than convenience goods.

  Use of sales personnel, communication of competitive advantage, branding, advertising, customer service etc. Attribute based (Non Price Competition), product with the best set of attributes is bought. If product attributes are judged to be similar, then priced based.
- *Specialty*: Buyer knows what they want and will not accept a substitute, IE Mercedes. Do not compare alternatives. Brand, store and person loyal. Will pay a premium if necessary. Need reminder advertising.
- *Unsought*: Sudden problem to resolve, products to which consumers are unaware, products that people do not necessary think of purchasing. Umbrellas, Funeral Plots, Encyclopedia!!

The following are classifications for Business to Business products:

- *Production Goods*
  - Raw Materials:
  - Component parts: becomes part of the physical product
  - Process materials: not readily identifiable part of the production of other products
- *Support Goods*
  - Major Equipment:
  - Accessory Equipment: Type writers and tools
  - Consumable Supplies: IE Paper, pencils or oils
  - Business to Business services: Financial, legal marketing research etc.

ELEMENTS OF A PRODUCT MIX

If an organization is marketing more than one product it has a product mix.

- *Product item*—a single product
- *Product line*—all items of the same type
- *Product mix*—total group of products that an organization markets

Depth measures the # of products that are offered within each product line. Satisfies several consumer segments for the same product, maximizes shelf space, discourages competitors, covers a range of prices and sustains dealer support. High cost in inventory etc.

Width measures the # of product lines a company offers. Enables a firm to diversify products, appeals to different consumer needs and encourages one stop shopping.

Proctor & Gamble example in class.

Why so many different products?

Different needs of different target markets for the same product. Channels of distribution economies etc.

PRODUCT POSITIONING AND PRODUCT REPOSITIONING

This refers to a place a product offering occupies in consumers' minds on important attributes, relative to competing offerings.How new and current items in the product mix are perceived, in the minds of the consumer, therefore reemphasizing the importance of perception.

New Product—need to communicate benefits

Established Products—need to reinforce benefits

Ideal Characteristics

Need to introduce products that possess characteristics that the target market most desires, ideal. Product positioning is crucial. Consumers desires refer to the attributes consumers would like the products to possess—Ideal Points.

Whenever a group of consumers has a distinctive "ideal" for a product category they represent a potential target market segment.

A firm does well if its attributes (of the product) are perceived by consumers as being close to their ideal. The objective is to be "more ideal" than the competitors.

Each product must provide some unique combination of new features desired by the target market. Instead of allowing the customer to position products independently, marketers try to influence and shape consumers concepts and perceptions. Marketers can use perception maps.

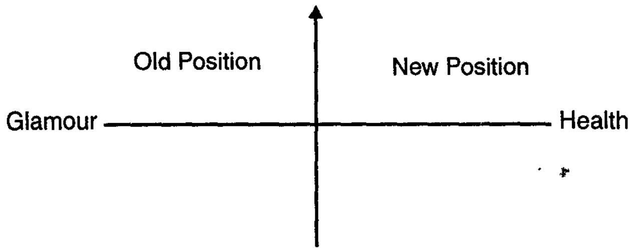
Existing Products

Traditional sun tan lotion positioned as aiding in getting a very glamorous deep tan etc.

Dermatologist reports...skin cancer etc.

Lifestyle needs change, move to more health conscious (previously discussed)

Need to reposition sun tan lotion as a healthy way to be exposed to the sun.



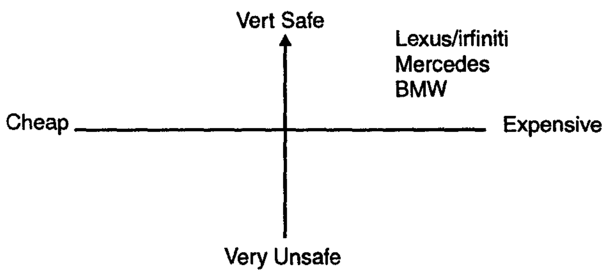
Target market has shifted from the left quartile to the right quartile as far as needs are concerned.

Sun tan marketers need to do same as far as changing consumers perception for the product.

How?

- Change Promotion: "Tan don't Burn" The St. Tropez Tan *vs.* Ultra Sweat Proof Serious tan for...Be Sun Smart
- Change Product: Sunscreen and sunless tanning agent.

BMW Banks on Affordability



- BMW, to reposition up to the left
- Due to the exchange rate, Lexus moves to the right
- Why did they repositition?
- Safety
- Affordability
- Competitors include Infiniti, Lexus, Mercedes Benz and Aurora

If you already have a brand in the market, must be sure to avoid cannibalization. Attributes and brand image should give a product distinct appeal.

NEW PRODUCT POSITIONING

When developing a new product, a company should identify all the features that are offered by all its major competitors.

Second, identify important features/benefits used in making purchase decisions.

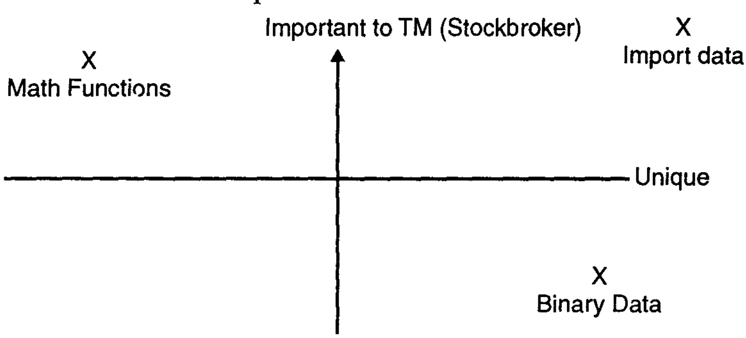
Determine the overall ranking of features by importance and relate the importance of each feature to its "uniqueness".

For example you wouldn't buy a spreadsheet programme that if it didn't perform basic math, so basic math is very important.

However since every spreadsheet has that its an "important fundamental feature", instead of an "important differentiating feature".

The flip side would be a spreadsheet that displays all numbers in binary (0-1) instead of "normal" numbers (0-9). This is unique but not important.

The evaluation becomes a 2 x 2 matrix with uniqueness on the X-axis and importance on the Y-axis.



If the feature is in the upper right hand corner then you have probably got a winning feature.

This is known as feature positioning, as opposed to product positioning. One can then see what type of customer needs the important (and perhaps unique) features.

If your spreadsheet accepts continuous data in real-time (such as stock market data) while Lotus 1-2-3 doesn't, you'd position your spreadsheet as a "real-time spreadsheet with all calculations needed by Wall Street."

Its a claim that tells something unique about your product, who it's for, and by implication, that Lotus 1-2-3 can't do it.

DEVELOPING AND MANAGING PRODUCTS

To compete effectively and achieve goals of an organization, the organization must be able to adjust its product mix. Need to understand competition and customer attitudes and preferences. 1982, Timex turned down the opportunity to market "Swatches". Timex was resting on its laurels, simple low cost watches. Digital revolutionized industry, Timex stuck with analog.

Now consumer owns 5 watches up from 1.5 30 years ago (emphasizing fashion need). Timex has acquired Guess and Monet Jewellers in an effort respond to change. Product mix: Dressy watches to Walt Disney Character watches, Indigo. Now have 1,500 styles, 300 in 1970.

DEVELOPING NEW PRODUCTS

Need to develop new products. A new product can be:

- Continuous Innovation...No new buyer behaviour to learn, i.e. -products not previously marketed by the firm, but by others
- Dynamic Continuous Innovation...minor education needed for consumers to adopt product
- Discontinuous Innovation...entirely new consumption patterns

  Ex: In Battle over Video Disk Standard

  What will be the winning format?

  New Product (Technology)

  Need to appeal to:

  - Hollywood
  - Ultimate consumers

Battle between:

— Sony and Phillips

— Toshiba, Pioneer and Time Warner

Swing voter...Matsushita Electric Industry (Toshiba/ Pioneer)

DVD could transform movie business (like CDs for music) Movie studios can resell all movies in new format therefore very important to them, also sell through market, video rentals are decreasing, due to competing service.

Set of requirements:

- 135 mins on 1 disc
- Quality superior to vhs
- cd quality audio
- Able to add multiple languages
- Parent lockout system
- Iron clad copying protection

Sony announced going ahead (Vapourware!)

If 2 systems go to market, best system will win, only one technology can survive, Winner Wins Big...loser Loses Big (Due to Investment) VHS vs Betamax

For a new product to succeed it must have:

- Desirable attributes
- Be unique
- Have its features communicated to the consumer (mkt support necessary)

Developing new products is expensive and risky.

Failure not to introduce new products is also risky. IE Timex

Firms develop new products in two ways:

- By acquisition, i.e. Timex bought Guess and Monet Jewellers in 1992, bringing in new products to their product mix.
- Internal development, this is what we are going to focus on.

17,363 (8,077 food) new items hit supermarket and drug stores in 1993, according to marketing experts, a 9.3% increase over 1992.

Launching a new product name along with new product is very risky and expensive therefore 75% of new products were brand-extension brands in 1993, up from 68% in 1992 (continuous innovations)

WHY NEW PRODUCTS FAIL

- Lack of differentiating advantage
- Poor marketing plan
- Poor timing
- Target market too small
- Poor product quality
- No access to market

SEVEN PHASES TO NEW PRODUCT DEVELOPMENT:

New Product Strategy Development

Only a few ideas are good enough to reach commercialization. Ideas can be generated by chance, or by systematic approach. Need a purposeful, focused effort to identify new ways to serve a market. New opportunities appear from the changes in the environment.

Idea Generation

Continuous systematic search for new product opportunities.

- *Marketing oriented sources*—identify opportunities based on consumer needs, lab research is directed to satisfy that research. 1-800#s, research etc.
- *Laboratory oriented sources*—identify opportunities based on pure research or applied research.
- *Intrafirm devises*—brain storming, incentives and rewards for ideas. 3Ms Post it, from choir practice. Hewlett Parkards lab is open 24 hrs. day. Analyzing existing products, reading trade publications.

Brainstorming for your group project. Ideas should not be criticized, no matter how off-beat they are.

Product Screening and Evaluation

New product check list; list new product attributes considered most important and compare each with these attributes. Check list is standardized and allows ideas to be compared.

- General characteristics, Marketing Characteristics and Production Characteristics.
- Ideas with the greatest potential are selected for further research.
- Do they match the organizations goals
- Look at companies ability to produce and market the product.
- Need to look at the nature and wants of the buyers and possible environmental changes.Sample of potential buyers is presented with the product idea through a written or oral description to determine the attitudes and initial buying intentions.
- This is done before investing considerable sums of money and resources in Research and Development.
- Can better understand product attributes and the benefits customers feel are most important.
- Would you buy the product?
- Would you replace your current brand with the new product?
- Would this product meet real needs?

Business Analysis

- Analyze potential contribution to sales, costs and profits.
- Does the product fit into the current product mix?
- What kind of environmental and competitive changes can be anticipated?
- How will these changes effect sales etc.?

- Are the internal resources adequate?
- Cost and time line of new facilities etc.?
- Is financing available?
- Synergies with distribution channel etc.
- MIS to determine the market potential sales etc.
- Patentability should be determined, last 17 years, 14 years for a pharmaceutical product.
- Find out if it is technically feasible to produce the new product.
- If you can produce the new product at a low enough cost so as to be able to make a profit.

Product Development

- Develop a prototype, working model, lab test etc.
- Attributes that consumers have identified that they want must be communicated through the design of the product.

Test Marketing

- Can observe actual consumer behaviour.
- Limited introduction in geographical areas chosen to represent intended market.
- Aim is to determine the reaction of probable buyers.
- It is the sample launch of the Marketing Mix.
- Determine to go ahead, modify product, modify marketing plan or drop the product.

PROS are:

- Lessens the risk of product failure.
- Reduces the risk of loss of credibility or undercutting a profitable product.
- Can determine the weaknesses in the MM and make adjustments.
- Can also vary parts of the MM during the test market.
- Need to select the appropriate MM and check the validity.

CONS are:

- Test market is expensive.
- Firm's competitors may interfere.
- Competitors may copy the product and rush it out. IE Clorox detergent with bleach P&G. "In a live test you've tipped your hand, and believe me, the competition is going to come after you. Unless you have patented chemistry, they can rip you off and beat you to a national launch" -Director of Marketing at Gillette's Personnel division.

Alternatively can use a simulated test market. Free samples offered in the mall, taken home and interviewed over the telephone later.

Commercialization

- Corresponds to introduction stage of the Product Life Cycle.
- Plans for full-scale marketing and manufacturing must be refined and settled.
- Need to analyze the results of the test market to determine any changes in the marketing mix.
- Need to make decisions regarding warranties etc (reduces consumers risk). Warranties can offer a competitive advantage.
- Spend alot of $s on advertising, personnel etc. Combined with capital expenditure makes commercialization very expensive.
- All stages above are identified in this article except market testing.

Need to consider:

- The speed of acceptance among consumers and channel members;
- Intensity of distribution,
- Production capabilities,
- Promotional capabilities,

- Prices,
- Competition,
- Time period to profitability and commercialization costs.

BUYERS' PRODUCT ADOPTION PROCESS

1. *Awareness*: Buyers become aware of the product
2. *Interest*: Buyers seek information and is receptive to learning about product
3. *Evaluation*: Buyers consider product benefits and determines whether to try it
4. *Trial*: Buyers examine, test or try the product to determine usefulness relative to needs
5. *Adoption*: Buyers purchase the product and can be expected to use it when the need for the general type of product arises.

Rate of adoption depends on consumer traits as well as the product and the firm's marketing efforts.

DIFFUSION PROCESS

The manner in which different members of the target market often accept and purchase a product (go through the adoption process)

1. *Innovators*: Techno-savvies first customers to buy a product, 2.5 % of consumers
2. *Early Adopters*: Tend to be opinion leaders. Adopt new products but use discretion, 13.5%
3. *Early Majority*: 34% of consumers, first part of the mass market to buy the product
4. *Late Majority*: Less cosmopolitan and responsive to change, 34%
5. *Laggards*: Price conscious, suspicious of change, 16%, do not adopt until the product has reached maturity.

Implications to marketers, company must promote product to create widespread awareness of existence and benefits.

Product and physical distribution must be linked to patterns of adoption and repeat purchase.

MANAGING THE PRODUCT

PRODUCT LIFE CYCLE (PLC)

PLC can be applied to:

- Product category (Watch)
- Product style (Digital)
- A product item/brand (Timex)

Four Stages to the Product Life Cycle:

1. Introduction
2. Growth
3. Maturity
4. Decline

The following material refers to the PLC as far as the product category is concerned unless otherwise stated.Failure rate for new products can range from 60%-90%, depending on the industry. A product does not have to be an entirely new product, can be a new model (car).

GROWTH

Need to encourage strong brand loyalty, competitors are entering the market place. Profits begin to decline late in the growth stage.

MARKETING MIX CONSIDERATIONS

May need to perform some type of product modification to correct weak or omitted attributes in the product.

Need to build brand loyalty (selective demand), communications should stress the brand of the product, since consumers are more aware of the products benefits and there is more competition, must differentiate your offering from your competitors.

May begin to move toward intensive distribution-the product is more accepted, therefore intermediaries are more inclined to risk accepting the product.

Price dealing/cutting or meeting competition, especially if previously adopted a price skimming strategy.

Ex: Coca Cola Launches Fruit-Drink line.

Category doubled in size last year to about $300m - $325m Coca Cola's entrant—Fruitopia expect sales this year to reach $400m

Fruitopia is in the Introductory stage when the Alternative Beverage market is in the Growth stage. New competitors like Coca Cola will help grow the size of the market.

MATURITY

Sales curve peaks-severe competition, consumers are now experienced specialists.

DECLINE

Sales fall off rapidly. Can be caused by new technology or a social trend.Can justify continuing with the product as long as it contributes to profits or enhances the effectiveness of the product mix.

DIFFERENT TYPES OF LIFE CYCLE CURVES

Fad Curve

- Clear products, Crystal Pepsi
- Fleeting fashions vs. lasting shifts in consumer preference. Cannot differentiate between the two using usual marketing tools like focus groups. "Hand anyone a hula hoop, and they'll have fun with it—at first"
- Clear was equated with natural, reinforcing the idea of what you get is what you see.
- Problems: Clear products that didn't fit the positioning...clear gasoline/beer
- Pay higher prices for products with fewer ingredients.

Seasonal Curve

Life cycles that vary by season, clothing etc.

BRANDING

Part of the *actual* product.

Without brands, shoppers choice becomes arbitrary.

A name, term, design, symbol or any other feature that identifies one seller's good or service as distinct from anothers.

- *Brand name* is that part that can be spoken, including letters, words and #s, IE 7UP.

  Brand names simplify shopping, guarantee a certain level of quality and allow for self expression.
- *Brand mark*-elements of the brand that cannot not be spoken, IE symbol
- *Trade Character* IE Ronald McDonald, Pillsbury Doughboy
- *Trade mark*-legal designation that the owner has exclusive rights to the brand or part of a brand.

  1990, US Patent & Trademark Office had 680,000 trademarks registered, 56,515 new in that year.
- *Tradename*-The full legal name of the organization. IE Ford, not the name for a specific product.

BENEFITS OF BRANDING

Provides benefits to buyers and sellers.

To Buyer:

- Help buyers identify the product that they like/dislike.
- Identify marketer
- Helps reduce the time needed for purchase.
- Helps buyers evaluate quality of products especially if unable to judge a products characteristics.
- Helps reduce buyers perceived risk of purchase.
- Buyer may derive a psychological reward from owning the brand, IE Rolex or Mercedes.

To Seller:

- Differentiate product offering from competitors

- Helps segment market by creating tailored images, IE Contact lenses
- Brand identifies the companies products making repeat purchases easier for customers.
- Reduce price comparisons
- Brand helps firm introduce a new product that carries the name of one or more of its existing products...half as much as using a new brand, lower co. designs, advertising and promotional costs.

Example, Gummy Savers

- Easier cooperation with intermediaries with well known brands
- Facilitates promotional efforts.
- Helps foster brand loyalty helping to stabilize market share.
- Firms *may* be able to charge a premium for the brand.

IMPORTANCE OF BRANDING AND HOW TO DEVELOP A BRAND

Why does AMC Brand Itself?

Increasing Competition, 500 channels etc.

Need to differentiate Product offering so consumers associate satisfying need to see good movies to watching AMC

Consumers cannot check all brands therefore need to make choice easier for them

"We compete now with many movie channels, If consumers think of you without a Brand or personality, you become an inventory of pictures, In a world of hundreds of channels, you'll get lost".

How does AMC Brand Itself?

Advertise...emphasize need to keep movies in original state

Boutiques in stores to sell "AMC Collection"

License Audrey Hepburn image...spokesperson

Co-promotion w/ United Artists Theaters sponsoring afternoon vintage movies.

AMC news magazine at Newsstands.
Logo and AMC Letters
Releasing AMC movies on video
TM = 72% over 35 years old

Brand loyalty is declining due to an increase in similar new products for customers to chose from, and an increase in marketing activities to encourage brand switching and the increasing quality of private label products.

Brand equity, financial value associated with the brand. Can be increased when licensing royalties can be gained.

FOUR BRANDING DECISIONS FIRMS MUST MAKE

A firms name logo and trade characters.

Over 1000 ongoing firms change names each year, DuPont.

If nature of business changes, may need to alter name—Southwest Airlines?? Allegheny Airlines change to US Air due to expansion in geographic markets. Boston Chicken vs. Boston Market.

Geographic names not as popular as they used to be compared to surnames, descriptive names and coined names.

Kiwi airlines—named after a bird that cannot fly

Types of Brands

Manufacturers Brands

Initiated by the producer.

85% food items, all autos, 75% major appliances, more than 80% gasoline.

Requires the producer to be involved in distribution, promotion, and to some extent, pricing.

Brand loyalty is encouraged by quality, promotion and guarantees. Producer tries to stimulate demand, encouraging middlemen to make the product available (PULL)

Private Distributor Brands

- Initiated and owned by the resellers. 50% of shoes, 33% tire market, 13% food, 25% appliances.
- Manufacturers not identified in the product.
- Helps retailers develop more efficient promotion, generate higher margins and increase store image.
- Wholesalers brands-IGA
- Retailers brands Sears Kenmore, JC Penney's Stafford Executive.
- Presidents Choice, Loblaw, 1000 products
- Our Compliments, MF. by Nabisco
- Master Choice, A & P
- Select, Safeway

Kodak in Japan, market private label film since Mf. label not successful in marketplace, "COOP" for the Japanese Consumer Cooperative Union.

DuPont, with Initiatives Inc, design/make fashion items, utilize its fibre resources and develop another customer for them. Work with retailers to design fashions.

The competition between manufacturers brands and private brands (15% retail grocery) is intensifying.

Reason for increase in Private Brands

- Increasing prices of MB in 1980s with flat demand
- Increasing Quality of PB
- Increasing Promotion of PB
- PB offer retailers higher margins
- Offer regional products

Private brands have been growing:

- 1991 increase 4%
- 1992 increase 3%
- 1993 increase .8%

Manufacturer brands are beginning to fight back.

- Reduce price (marlboro monday, reduced 20%)
- Promotions focus on quality and directed at PL
- New product launches, line extensions.
- Focus on core products

PB are still popular, also consumers are purchasing PB products that were once bastions of MB, personal care etc., Beer/Cigarettes, *another indication of consumers' growing confidence of the quality of PBs.*

- National Advertising
- Retailers are Marketers not landlords. Sainsburys launched 1400-1500 new products each year. 8000 of 16000 products are private label.

Generic Brands

- Indicates only product category.
- Began as low cost alternative in the drug industry.
- Less than 1% of supermarket revenue even though 85% stock them. Cheeper than branded items.
- Accounts for less than 1% of retail sales, was 10%.

Selecting a Brand Name

Criteria for choosing a name:

- Easy for customers to say, spell and recall (inc. foreigners)
- Indicate products major benefits
- Should be distinctive
- Compatible with all products in product line
- Used and recognized in all types of media
- Single and multiple words Bic, Dodge Grand Caravan, IBM PC (letters), or a combination Mazda RX7
- Availability, already over 400 car "name plates", this makes it difficult to select a new one.

- Use words of no meaning to avoid negative connotation, Kodak, Exxon
- Can be created internally by the organization, or by a consultancy
- Legal restrictions, i.e. Food products must adhere to the Nutrition Labeling and Education Act, 1990...May 8 1994

Protecting a Brand

Need to design a brand that can be protected through registration.

Generic words are not protectable (aluminum foil), surnames and geographic or functional names are difficult to protect.

To protect exclusive rights to a brand, must make certain that the brand is not likely to become considered an infringement on any existing registered brand.

Guard against a brand name becoming a generic term used to refer to general products category. Generic cannot be protected. IE Aspirin, Shredded Wheat ETC.

- Xerox
- Rollerblade
- Thermos
- Kleenex

BRANDING POLICIES

First question is whether to brand or not to brand. Homogenous products are difficult to brand (Not Purdue, Robinson Brick). Branding policies are:

- *Individual Branding:* Naming each product differently P&G, facilitates market segmentation and no overlap.
- *Overall Family Branding:* All products are branded with the same name, or part of a name, IE Kraft, promotion of one item also promotes other items.
- *Line Family Branding:* Within one product line. IE P&Gs Ivory line.

- *Brand Extension Branding:* Use one of its existing brand names as part of a brand for an improved or new product, usually in the same product category.

75% new products are brand extensions!!

To use brand extensions the products should be either related (not the case for Virgin), or the brand name should have a value over and above the particular product category, i.e. a counter culture image for example. If that is the case, then it might work.

BRAND LICENSING

Approve use of trade marks on other products for a licensing fee. IE Harley Davidson with Cologne, McDonalds with McKids. PRO Gain extra revenue and free publicity and trade mark protection, also helps develop your brand, AMC

CON Lack of manufacturing contról, bombardment of unrelated products.

PACKAGING

Part of the *actual* product.

Consists of a products physical container, label and/ or insert.

Approximately 10% of product selling cost.

Development of a container and a graphic design for a product. Can effect purchase decisions IE pump dispenser on a tube of toothpaste.

Packaging Functions include:

- Protect product and maintain functional form, IE milk.
- Foil shop lifting
- Offer convenience, Usage (dispersement)
- Promote product by communicating features "last 5 seconds of mktg", Campbells...Read Article
- Develop reusable package for alternative use.
- Segmentation, tailored to a specific group Contact Lenses

MAJOR PACKAGING CONSIDERATIONS

Packaging decision serve the channel members and the final consumer.

- Cost—how much are customers willing to pay for the packaging?
- Preprinted cost, use UPC codes
- Must comply with the FDA packaging regulations.
- Make product tampering evident to the reseller and customer, cost benefit with liability
- Need to consider consistency among package designs—Family packaging...category consistent... Pringles
- Need to inform potential buyers of new products content, features, uses, advantages and hazards.
- Need to create a desirable image through colour etc. Can be designed to appear taller or shorter (thin vertical lines for taller) People associate specific colours with certain feelings, Red with fire. Do not package meet in green!!
- Must meet the needs of resellers—transportation, storage and handling.
- Environmental responsibility.

PACKAGING AND MARKETING STRATEGY

Packaging can be a major component of the marketing strategy—giving a product a competitive advantage. Need to reevaluate packaging periodically.

Altering the Package - must evolve with the times

Change style of package Coke, Pepsi

Pepsi freshness dating, need extensive marketing effort to communicate this.

Coke's new contoured bottle "feel the curves" "the ultimate form of refreshment", with a silhouette of a coke bottle on a bill board. Considering a contoured can in the future!!

Multiple Packaging Twin packs, six packs etc...won't work for salt!! Stimulate extra use. Helps gain customer acceptance.

Handling Improved packaging

Packaging changes during distribution, IE Cartons

CRITICISM OF PACKAGING

- Functional problems, Flour, sugar.
- Packages that are difficult to open.
- Recyclability. Safety issues (sharp)
- Package deception. Customer confusion IE different size designations, Giant, Econ etc.
- Increased costs attributed to packaging.

LABELING

- Facilitates ID of a product
- Descriptive function
- Indicate the grade of the product
- Describe source of product, its content and major features
- How to use the product etc.
- Label can be a promotional tool
- Needs to fulfill federal obligations.
- Universal Product Code for Inventory and Information.

NATURE OF PRICING

Definition: Price is the value placed on what is exchanged. Something of value is exchanged for satisfaction and utility, includes tangible (functional) and intangible (prestige) factors. Can be a barter.

Buyers must determine if the utility gained from the exchange is worth the buying power that must be sacrificed. Price represents the value of a good/service among potential purchases and for ensuring competition among sellers in an open market economy.

Marketers need to understand the value consumers derive from a product and use this as a basis for pricing a product—must do this if we are customer oriented.

IMPORTANCE OF PRICE TO THE MARKETER

- Often the only element the marketer can change quickly in response to demand shifts.
- Relates directly to total revenue TR = Price * Quantity

Profits = TR - TC- effects profit directly through price, and indirectly by effecting the quantity sold, and effects total costs through its impact on the quantity sold, (ie economies of scale)

- Can use price symbolically, emphasize quality or bargain.
- Deflationary pressures, consumers very price conscious.

PRICE AND NON PRICE COMPETITION

Price Competition

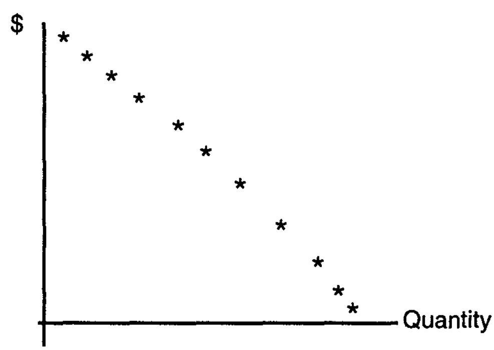


Fig. Demand Curve

- Match, beat the price of the competition. To compete effectively, need to be the lowest cost producer.
- Must be willing and able to change the price frequently. Need to respond quickly and aggressively.

- Competitors can also respond quickly to your initiatives.
- Customers adopt brand switching to use the lowest priced brand.
- Sellers move along the demand curve by raising and lowering prices.

Non-Price Competition

Emphasize product features, service, quality etc. Can build customer loyalty towards the brand. Must be able to distinguish brand through unique product features.

Customer must be able to perceive the differences in brands and view them as desirable.

Should be difficult (impossible) for competitors to emulate the differences (PATENTS)

Must promote the distinguishing features to create customer awareness.

Price differences must be offset by the perceived benefits.

Sellers shift the demand curve out to the right by stressing distinctive attributes.

Ex: Bristish Airways

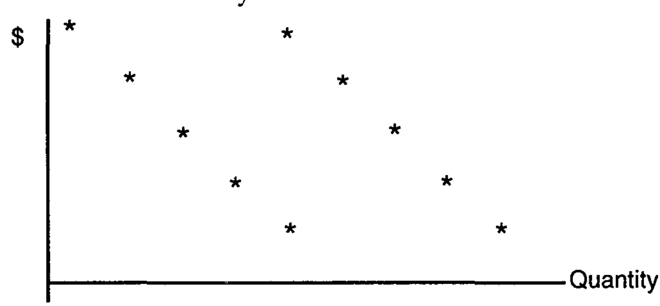


Fig. Ex: Mobil Bets Drivers Pick Cappucino...

Mobil is trying to distinguish its offering from other gas marketers, in order that it doesn't have to compete on price alone, which is the traditional way gas has been marketed. It identified 4 types of consumers that purchase gas in different ways etc.

- Road Warriors 16%
- True Blues 16%
- Generation F3 27%
- Homebodies 21%
- Price Shoppers 20%

FACTORS AFFECTING PRICING DECISIONS

There is considerable uncertainty regarding the reaction to price on the part of buyers, channel members, competitors etc.

It is also important in market planning, analysis and sales forecasting.

Organizational and Marketing Objectives

Need to be consistent with companies goals. IE exclusive retailer sets high prices. Also consistent with the marketing objectives for the year.

Types of Pricing Objectives

- *Profit,* Satisfactory profit levels vs. profit maximization. Expressed in dollar amount or percent change from the previous period.
- *Market share,* Pricing objectives used to increase or maintain market share.
- *Cash flow,* recover cash as fast as possible, especially with products with short life cycles.
- *Status Quo,* maintain market share, meeting competitors prices, achieving price stability or maintaining public image. Primarily for non price competition.
- *Survival,* accept short term losses necessary for survival.

Buyers Perceptions

How important is price to the target market?

Price sensitivity varies among market segments and across different products (ie necessary products vs. luxury)

Need to know buyers acceptable range of prices and sensitivity towards price changes.

Need to gauge *Price Elasticity*, a measure of the sensitivity of the demand to changes in prices.

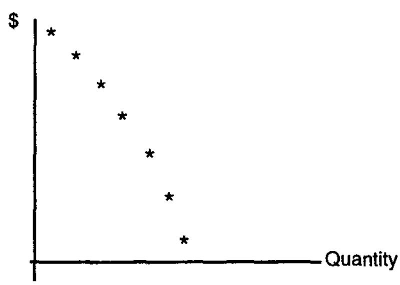
Percent change in quantity demanded relative to the percent change in price.

$$\frac{\%\text{change in Qtty demanded}}{\%\text{change in price}}$$

We are now looking at the actual impact on demand as price varies. *Elastic demand* is more sensitive to price than *inelastic demand.*

- Elastic demand, greater than1 (-1)
- Inelastic demand, less than 1 (-1)
- Unitary demand, equal to 1
- Always take the absolute values

Inelastic Demand



Elastic Demand

Type of demand that exists is based on:

- Available substitutes
- Urgency of need
- Brand loyalty
- TR = Price * Qtty

If demand is elastic then change in price causes an opposite change in the total revenue.

If demand is inelastic then change in price causes the same change in the total revenue.

The less elastic the demand, the more beneficial it is for the seller to increase price.

Companies Finding Consumers resisting Price Boosts

Different examples of products that have elastic demand and inelastic demand.

Costs

In the long run, cannot survive by selling at or below cost. Need to take into account all costs, costs associated with product, with total product line etc.

Analysis of Demand, Cost and Profit Relationships

Need to set a price that covers all costs. Two methods:

Breakeven Analysis:

Break even point is where the cost of producing the product is equal to the revenue derived from selling the product.

Types of Cost:

Fixed.....do not change with change in # units produced

Variable..vary directly with the change in the # units produced

$$\text{BEP} = \frac{\text{FC}}{\text{per unit cont. to FC}} = \frac{\text{FC}}{\text{price- variable cost/unit}}$$

Need to determine the BE point for each of several prices. Focuses on what is needed to break even.

Marginal Analysis

What happens to the costs and revenues as production increases by one unit. This will determine at which point profit will be maximized. Need to distinguish between:

Fixed Costs
Average Fixed Costs, FC/units produced
Variable Costs (materials labour etc.)
Average Variable Cost, VC/Unit produced
Total Cost = (AFC+AVC)*QTTY

Marginal cost = the extra cost to the firm for producing one more unit.

Marginal revenue = the extra revenue with the sale of one additional unit.

MR - MC tells us if it is profitable to produce one more unit.

Profit maximization at MR = MC

To produce/sell more units than the point MR = MC the additional cost of producing one more unit is greater than the additional revenue from selling one more unit. At any point prior to MR = MC, MR will be greater than MC, therefore the additional revenue from selling one more unit will be greater than the additional cost of producing one more unit, therefore forgoing the opportunity to generate additional profits. Therefore MR = MC = Profit Maximization; *assuming all products are sold.*

Due to the environment it is difficult to predict costs and revenues etc.

Other Marketing Mix Variables

- All marketing mix variables are interrelated.
- IE price determines the quality status.

- Determines the type of distribution (selective/ intensive).
- Effects the margin for wholesalers and retailers.
- Type of promotion, use price (bargain).

Channel Member Expectations

- Expect to receive a profit for services performed.
- Need to keep distributors/retailers happy, avoid conflicts, use exclusive dealing, avoid discounters.
- May use price guarantees to assure wholesalers/ retailers that the price they pay is the lowest available.
- Cooperation depends on the equitable distribution of costs and profits within the channel.

DEMAND ORIENTED PRICING

Determined by the demand for the product.

Determine the demand first, calculate the mark up needed for each channel member, then determine how much is available (cost ceiling) to produce the product.

Need to estimate the amount of products demanded at each price level.

Demand - Minus pricing—determine final selling price and work backwards to compute costs. Used by firms that sell directly to consumers. Price decisions revolve around what people will pay.

Determine the final selling price, mark-up required, then maximum acceptable/unit cost for production or buying a product.

Range of acceptable prices, used when firm believes that price is key factor in consumer decision making process. Price ceiling is the maximum the consumers will pay for a product. Need to understand the elasticity of demand.

Use *Yield Management Pricing*-right mix price-quantity to generate highest revenue—airlines. Price manages demand!

Types of Policies

- *Price Skimming* Charge highest price possible that buyers who most desire the product will pay. Generate much needed initial cash flow, cover high R&D costs. Esp. good for limited capacity introductions.

  Attract market segment more interested in quality, status, uniqueness etc.

  Good if competition can be minimized by other means, IE, brand loyalty, patent, high barriers to entry etc.

  Consumers demand must be inelastic.

- *Penetration Pricing* Price reduced compared to competitors to penetrate into markets to increase sales.

  Less flexible, more difficult to raise prices than it is to lower them.

  May use it to follow price skimming.

  Good as a barrier to entry.

  Appropriate when the demand is elastic.

  Use if there is an increase in economies of scale through increased demand.

- *Odd-even pricing,* end prices with a certain number, $99.95 sounds cheaper than $100., may tell friends that it is $99.

  Customers like to receive change, since change is given, then the transaction must be recorded.

  Consumers may perceive that a lot of time taken considering the price, and it is set as low as possible.

  Even prices are more unusual than odd prices. Even prices for upscale goods.

- *Price bundling,* Offer a product, options, and customer service for one total price. Prevalent in the BB market, include installation etc.

  May unbundle price, ie, breakdown prices and allow customers to decide what they want to purchase.

  Fast food industry.

- *Prestige Pricing,* when price is used as a measure of quality.

COST ORIENTED PRICING

$ amount or % added to cost. Need to know the desired margins etc. Easy to administer.

- *Cost-plus pricing* Cost calculated then a % added. Costs, overhead may be difficult to determine. Establish the # of units to produce, calculate the fixed and variable costs and add a predetermined cost-popular with rapid inflation.

  Profit is stated as a % of costs, not sales, price not established through consumer demand, little incentive to hold down costs.

  Adjustments for rising costs are poorly conceived.

  Good when consumers are price inelastic and the firm has control over prices.

  Good for establishing a floor price, for which you can't charge less.

- *Mark-up pricing,* Common among retailers. May vary from one product category to another depending on turnover rates.

  Reduces prices to a routine.

  Stated as a % of costs or selling price.

COMPETITIVE ORIENTED PRICING

Considers competitors prices primarily. Especially with products that are homogeneous.

Can chose to be below, at or above competitors prices.

Better position for estimating pricing if marketers know what competitors are charging.

IE employ competitive shopping, purchase pricing, call up.

Sometimes very difficult to determine, esp. in the resellers market.

How will competitors respond to an adjustment in price.

What is the market structure?

Oligopoly—Marlboro's Black Monday

Perfect competition—buyers will only pay the market determined price.

Is the competitive environment Market controlled, Company controlled or Government controlled price environment?

Policies consistent w/ competition oriented:

- Customary prices, priced on the basis of tradition, ie, candy bar was 5c for a longtime, mf. change the size before they change the price, alter other MM variables before pricing. Wrigley's Gum only varied price 5 times, 10-15, 15-20, 20-25, 25-30, and 30-35

SELECTING A PRICE LEVEL IN TODAY'S MARKETPLACE

Price resistance from consumers.

Age of disinflation due to:

- Overcapacity
- Global competition...US most competitive in the world
- slow growth
- Increased unemployment

Therefore need to rethink all aspects of business.

Price has been restored as the economic arbiter:

How the marketplace truly values goods and services

No cloak of inflation to disguise mgt. decision errors

"When you have inflation, it covers alot of sins."

Strategies:

- Redesign products for ease and speed of manufacture
- Strip away costly features customers don't want
- Reduce rebates/discounts for everyday low prices

- Forge closer links with customers (relationship marketing)
- Accelerate new product development
- Invest in information technology
- Reduce bureaucratic layers

"Management challenge of the '90s is to reduce costs and increase perceived value of the product"

Cannot let the Internal Processes Determine Price, Price *must* Determine Process

Traditional view of pricing = add up costs, overruns and acceptable profit margin.

Now...set target price (what the customer is willing to pay), determine acceptable level of profit, intermediary costs, then determine allowable costs of production.

"Back into price from the customers perspective"

Must accelerate product development, since costs and demand patterns will shift over time.

Cars' development cycle was 5-6 yrs, now less than 3 = Neon.

Compaq "Design to price", built computers costing 60% less. Price target from marketing, profit margin goal from management, team then determines what the costs must be. Prolinea and Contura Notebook were developed in less than 8 months.

Alternative:

- Value added strategy...Non Price competition.

  Feature that is truly valued by the consumer, no one else has, you have a monopoly of feature...but customers are less willing to over pay for feature...perceived quality of all products has risen, making this strategy very difficult.
- Strip down product to bear minimum...Southwest Airlines

A SPECIFIC PRICE

A pricing method will yield a certain price, that price will likely need refining.One-Price vs. Flexible Pricing Policy

PRICE DISCOUNTING (OFF LIST PRICES)

- *Trade,* given by a producer to an intermediary for performing certain functions (in terms of % off list prices)
- *Quantity,* due to economies of purchasing large qttys. Pass cost savings on to the buyer. There are five areas of cost savings, reduced per selling costs, fixed costs decline or remain the same, lower costs from the suppliers of raw materials, longer production runs means no increase in holding costs, shift storage, financing, risk taking functions to the buyer. Can cumulative/non cumulative.
- *Cash,* for prompt payment, 2/10 net 30, means 2% discount allowed if payment is made within 10 days, entire balance is due within 30 days, no discount, after that interest will be charged.
- *Seasonal,* purchase out of season
- *Allowances,* trade in allowances, price reductions granted for turning in a used item when purchasing a new one-to achieve desired goal. Popular in the aircraft industry. Also promotional allowances, price reduction in return for dealers promotional efforts.

CHANNEL OF DISTRIBUTION

Distribution-activities that make products available to customers when and where they need them. A *channel of distribution* or marketing channel is a group of individuals and organizations that directs the flow of products from producers and customers. *Marketing Intermediaries* link producers to other intermediaries or to the ultimate users of the product. Operate between the producer and the final buyer.

Types of Utility Distribution Offers

- *Time:* When the customers want to purchase the product.

- *Place:* Where the customers want to purchase the product.
- *Possession:* Facilitates customer ownership of the product.
- *Form:* Sometimes, if changes have been made to the product in the distribution channel, i.e. Pepsi/Coke, concentrate to bottlers.

Each channel member has different responsibilities within the overall structure of the distribution of the system; mutual profit/success is obtained through cooperation.

The Distribution System

- Determines a product's marketing presence and the buyers' accessibility to the product
- Entails a long-term commitment, easier to change other aspects of the marketing mix.

JUSTIFICATION FOR INTERMEDIARIES

"we've eliminated the middle man and we're passing on the savings to you"-a typical broadcast from Supermarket XYZ Why do we use intermediaries?

Without intermediaries:

May be able to reduce distribution costs, if the supermarket can perform those functions *more efficiently* than a wholesaler, but the supermarket inventory costs may increase as a consequence, therefore no savings and *less efficient.*

- *Improve exchange efficiency.*

There are certain costs associated with an exchange, therefore need to try to reduce the number of transactions (exchanges):

Chicken	Customer1	With 1 intermediary—10 transactions
Potatoes	Customer2	With no intermediaries—25 transactions
Carrots	Customer3	
Plates	Customer4	
Silverware	Customer5	

Without an intermediary, each buyer has to negotiate and exchange with each seller. With one intermediary, each buyer negotiates with one intermediary (as opposed to 5 sellers), and each seller negotiates with one intermediary (as opposed to 5 buyers).

- Intermediaries are *specialists* in the exchange process, provide access to and control over important resources for the proper functioning of the marketing channel. Division of labour.

Still need services that intermediaries (wholesalers, retailers etc.) provide; if they were eliminated then someone else would have to assume the tasks (either producer or customer). Functions can be shifted and shared among channel members, but *cannot* be eliminated, unless the buyer assumes them.

"you can eliminate the middle man, but you can't eliminate their functions"-a well accepted maxim in marketing.

FUNCTIONS OF INTERMEDIARIES

Primary role of middlemen is to transform the assortment of products made by producers in the assortments desired by consumers.

Producers make *narrow* assortments in large quantities, consumers want *broad* assortments in small quantities, discrepancy in quantity and assortment.

Match Supply and Demand:

Chicken	Customer1
Potatoes	Customer2
Carrots	Customer3
Plates	Customer4
Silverware	Customer5

Producer Specialization in production, economies of scale etc., therefore wants to produce large quantities but narrow product mixes.

Efficiently

Customer Wants a broad assortment (products produced by many manufacturers) of products made available conveniently (within easy reach).

Other functions of intermediaries include:

- Assuming risk—Provide working capital by paying for goods before they are sold.
- Information Flow
- Financing
- Payment and title flow.
- Negotiation
- Contacts
- Promotion

A producer will use an intermediary when it believes that the intermediary can perform the function(s) more economically and efficiently than it can.

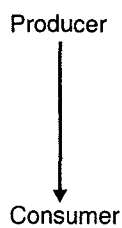
TYPES OF CHANNELS OF DISTRIBUTION

Consumer Channels

Channels for Consumer Products.

Vertical dimensions, determined by the # in the channel.

- Channel A:



IE door to door purchases, *Unsought products* IE Encyclopedias. Fruit picking orchards.

Services often use direct channels since the service provider, in most cases, must be there to provide the service.

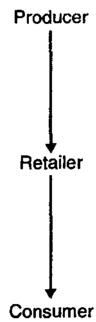
Simplest method, not necessarily the most effective.

Technological developments are making the direct channel more common:

- TV Homeshopping
- CDs
- Catalogs, LL Bean etc.
- Internet, WWW

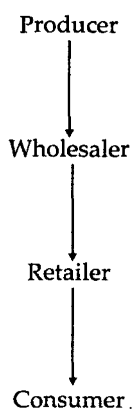
When you can use the media of communication to effect exchange...1-800#s, Credit Cards etc.

- Channel B:



Large retailers, JC Penney, KMart, no discrepancy in quantity supplied and demanded. Popular for *shopping products*, clothing. Automobiles...cost of transportation and inventory is high.

- Channel C:



Smaller retailers, widely distributed products, convenience products.

- Channel D:

Producer
↓
Agent
↓
Wholesaler
↓
Retailer
↓
Consumer

Mass distribution, IE processed food; also when there are a number of small producers etc. May be the most efficient distribution channel for consumer products. Convenience products.

Horizontal dimensions, the # of channel members at the same level. IE Chevrolet much wider distribution than Rolls Royce.

Business to Business Channels

- Channel E:

Producer
↓
Buyer

Very popular, especially for high cost items that need after sale support. Fewer customers clustered geographically. This is a more common structure than the direct channel in consumer markets.

- Channel F:

Producer
↓
BB distributor
↓
Buyer

Distributor takes title. Used when there are many customers. IE consumable supplies etc.

- Channel G:

Producer
↓
Agent
↓
Buyer

When a company does not have a marketing department or sales force, the agent performs those tasks.

- Channel H:

Producer
↓
Agent
↓
Distributor
↓
Buyer

Used as above, with many customers, IE exporting.

MULTIPLE MARKETING CHANNELS

Dual Distribution

Use several types of channels simultaneously, IE when you have consumer and business to business markets. Set up 2 or more Marketing channels to attract the same target market or different target markets. Using two or more channels to attract the same target market can lead to channel conflict. This article discusses Time Warner developing additional distribution channels, adopting dual distribution. The idea is to find efficient ways to make your product available to your customers.

- Record Stores
- TV Shopping
- Catalogues
- Columbia House

It is very important however to avoid.

WHOLESALE INTERMEDIARIES

Wholesale transactions are all transactions except the transaction with the ultimate consumer.

Classification of a wholesaler or retailer is determined by the purchaser, not by the price. If over 50% of sales is with other intermediaries then the intermediary is a wholesaler. If over 50% of sales is with the consumer, then the intermediary is a retailer.

Firms can engage in wholesaling activities without being wholesalers.

NATURE AND IMPORTANCE OF WHOLESALING

Approximately a $1.94 trillion industry in the US

300,000 wholesaling establishments in the US

Employ 6.5 million people, down from 6.57 million in 1989

Very competitive. Wholesalers will be eliminated from a channel if they do not perform valuable functions effectively and efficiently.

TYPES OF WHOLESALE INTERMEDIARIES

2 Types of intermediaries:

- *Merchant intermediaries:* buy products and resell them.
- *Functional intermediaries:* do not take title, they expedite exchanges among producers and resellers, compensated by fees and/or commission.

Merchant Wholesalers

Account for approximately 83% of wholesalers, 50% of wholesale sales. Employ 4.5 million people.

Two types:

- *Full Service Wholesalers*-offer widest possible range of functions. Categorized as:
  - General Merchandise-wide mix (unrelated), limited depth.
  - Limited Line-only few products but an extensive assortment.
  - Specialty Line-narrowest range of products.
  - Rack Jobbers-are specialty line that own and maintain display racks, take back unsold products.
- *Limited Service Merchant Wholesalers*-only provide some marketing functions.
  - Cash and Carry wholesaler-customers pay and furnish their own transportation, No credit.
  - Truck Wholesalers-Operate rolling warehouses and sell a limited line of products directly from their trucks to their customers. Follow regular routes, primarily perishable products.
  - Drop Shippers (desk jobbers)-take title, negotiate sales but do not take possession.
  - Mail Order Wholesalers-use catalogues instead of sales force to sell.

Agents and Brokers

Negotiate purchases, expedite sales but do *not* take title.

Functional middlemen, that bring buyers and sellers together.

Compensated with commission.

Agents represent buyers and sellers on a permanent basis.

Brokers represent buyers and sellers on a temporary basis.

10.4% of wholesalers total sales volume.

- Manufacturers Agent-over half of all agents. Represent two or more sellers and offer customers complete lines. Handle non- competing (complementary) products. Written agreements.
- Selling Agent-market either all specified line or manufacturers entire output. Perform every wholesaling activity except taking title of the product. Used in place of a marketing department. Represent non-competing product lines.
- Commission Merchant-focus primarily on the selling task. Receive goods on consignment from local sellers and negotiate sales in large central markets.
- Auction Companies-provide storage for inspection. Sales made to the highest bidder.
- Brokers-negotiate exchanges-perform the fewest intermediary functions. Assume no risk.

Manufacturers Sales Branches and Offices

Resemble merchant wholesalers operations, 9% of wholesale establishments and generate 31% of wholesale sales. Manufacturer owned.

- Sales Branches-sell product and provide support services to manufacturers sales forces.
- Sales Office-serves normally associated with agents; like sales branches located away from a manufacturing plant-carry no inventory.

VERTICAL MARKETING SYSTEMS

The traditional view of channels focuses on buyers and sellers in direct contact. IE don't look beyond the next level. The systems view focuses on a framework for the whole distribution system.

A Vertical Marketing System (VMS) is a marketing channel that a single channel member coordinates. The channel member manages channel activities to achieve efficient, low cost distribution aimed at satisfying the target market customers. There are three types of Vertical Marketing Systems, Corporate, Administered and Contractual.

Corporate VMS

More than one stage of the distribution channel under one ownership, IE supermarket chains that own processing plants and large retailers that purchase wholesaling and production facilities.

Examples:

- Sears
- Sherwin Williams
- Giant Foods
- Gallo
- Banana Republic
- Hallmark
- The Gap
- Oil Companies

Administered VMS

Channel members are independent with a high level of interorganizational management by informal coordination. Agree to adopt uniform accounting policies etc., and promotional activities.

One Channel member dominates, has a *channel leader*.

Examples:

- Wal Mart
- Toys R Us
- Kellog
- Pepsi
- Coke

- GE
- P&G
- McKesson Corp
- JC Penney
- Campbell

Channel Leader-Effectiveness of channel hinges on channel leadership. Leader must possess channel power. Power can come in the following forms:

- Reward—provide financial benefits
- Expert—be the expert compared with other members
- Referent—strongly identify with leader
- Coercive—punish members

Contractual VMS

Most popular VMS, interorganizational relationships formalized through contracts that spell out each members rights and obligations. IE McDonald's and KFC. Franchise organizations 1/3 retail sales and 500,000 outlets.

Wholesaler sponsored, IGA stores-independent retailers band together under contractual leadership of a wholesaler.

Supervalue Stores, largest food wholesaler in the US, offers a broad package of services to 2800 independent food retailers that voluntarily enter into a buying contract.

Retailer sponsored cooperatives which set up, own and operate their own wholesalers.

CHANNEL CONFLICT

Channel members may disagree on the best methods to attain goals. Inevitable when individual short run goals are not compatible. Can occur between firms at the same level, or between firms at different levels. Want to maximize profits and autonomy.

Channel members belong to different channel systems, creating potential conflicts. Producers may try to circumvent intermediaries.

SELECTION OF DISTRIBUTION CHANNELS

Should determine what the final buyer wants and determine the best way to reach them. Marketing Oriented!!

Determined by:

1. *Organizational Goals,* Objectives (same day delivery), resources and capabilities. Companies with wide product mixes can sell more directly to the retailers, have more promotional skills etc. (P&G)
2. *Market Characteristics,* Geography, greater distance use more intermediaries, market density, clustering, market size etc., industrial vs. consumer, Buyer Behaviour, Where?/How?/ May need creativity, L'Eggs
3. *Product Attributes,* IE Need to provide a service. Perishability-short channels, storage requirements, space, fashion, size (reduce handling), complexity, standard.
4. *Environmental Forces,* IE Competition, Technology

Need to determine the # of Intermediaries

Determine the channel width, intensity of distribution, the products market exposure.

- Intensive Distribution:

  All available outlets are chosen for maximum exposure (within reason)....*That a Consumer would Purchase that type of Product.* Timex sells through 45,000 drug stores and thousands of other stores.

  Used for convenience products, especially when sales have a direct relationship to availability. Availability more important than the nature of the outlet. Gas station vs convenience store

  Convenience products have a high replacement rate and require no servicing.

  P&G rely on intensive distribution. Good for consumer package goods. Place utility.

  Manufacturer promotional support.

- Selective Distribution:

  Only some available outlets (usually geographic) are chosen. Typically shopping products.

  Buyers prefer to spend time searching.

  Customer service important.

  Selective distribution motivates retail support.

  Producers have more control.

  Retailer promotional support.

- Exclusive Distribution:

  One outlet in a relatively large area. Products purchased infrequently, last a long time and require service.

  Used as an incentive to sellers. No one to undercut them. (Place Utility)

  Allows for the highest control.

  Easier to get retailers to carry a complete inventory and to provide service and repair facilities.

  May be used to introduce new products, then change when market is more competitive (Move from introduction to the growth stage of the product life cycle.

RETAILING

NATURE OF RETAILING

Retailing includes *all* transactions in which the buyer intends to consume.

A Retailer:

- Must derive more than 1/2 of their sales from the ultimate consumer of the product to be classified a retailer (less than 1/2, then they are a wholesaler).
- 1.51 million retailers in the US. The number of retail establishments has remained constant over the last 20 years, but the sales volume has increased *4.

- 14.67 million employees in the US are involved in retailing.

CLASSIFICATION OF RETAIL STORES

According to 5 Criteria:

Form of Ownership

- Sole Proprietor (majority #s)
- Corporate Chains
- Contractual Chains
- Franchising

Types of Merchandise Offering

Merchandise mix, breadth (variety); depth (selection in product)

- Limited-line stores → Sporting Goods Stores etc.
- Single-line stores → Specialty Retailers Foot Locker, Radio Shack...Category Killers...Borders Books, Toys R Us etc.
- General merchandise stores

  Department stores

  Macy's, Strawbridge & Clothier etc.

  Competition from discount stores and specialty have put pressure on department stores.

  Some department stores are cutting services, offering basement discounts (competing with discount stores), others are remodelling and opening designer departments and boutiques (competing with specialty stores).

  Others increased services, IE restaurants. Leased departments, leased to entrepreneurs.
- Supermarkets... Superfresh etc.

  Supermarkets are adding high turnover non-food items to offset low margins of food items.

Added delis and hot pizza etc, in response to societal pressure (fast food). Also competition from convenience stores, 7-11 etc.

- Hypermarkets...success in europe, not in US 40% food, 60% general merchandise WalMart (222,000 Square feet, $2.5m per week) moving more toward supercenters.
- Supercenters...merchandise/groceries Wal Mart's projected high growth area of 1990s. Getting away from Hypermarkets. 80% of shoppers shop both sides of store. Use groceries to attract customers (traffice generaters), hoping they purchase high margin items.

- Discount Stores...Wal-Mart, KMart Developed in the 1950s when the post war supply for goods caught up with the demand for goods. Departmentalized, volume retailers.
- Off-price retailers... Buy manufacturers seconds, overruns, off seasons at a deep discount. TJ Maxx, Marshalls (317 stores, largest in the US).

  Discounted prices, fewer customer services. Inventory turned over 9- 12* per year (specialty retailer *3).

  Outlet malls-Reading VF outlet.

  Manufacturers that use Off-price retailing may alienate specialty retailers.

  Cannot advertise specific brands, but are advertising existence.

  Factory Outlets Dollar Discounts

  Offering more and more first run items, it is difficult for manufacturers to make enough "seconds" to fill these stores. Also starting to offer services, i.e. taking credit cards etc. It is not always the case anymore that you are guaranteed to get a better deal here than at a Department Store that has items on sale...especially if you consider the costs of accessing remote locations etc.

- Warehouse/Wholesale Club... Members only selling operations combine cash & carry wholesaling with discount retailing.

  Pioneered by Price Club, now bought out by Cost Co. Wholesale Club. Largest, WalMart's Sam's Club, $6.6 bn. KMart's PACE

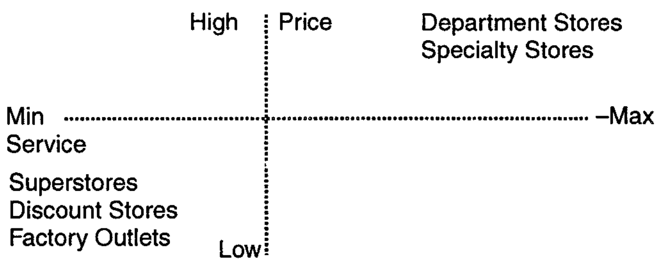
- Variety Stores... Woolworths are transforming to specialty merchants, Champs Sporting Goods, Kids Mart, Lady Footlocker, Woolworth Express.

  Variety stores are becoming less popular.

Service Price Orientation (Level of Service)

1 Service oriented retailer strategy.

2 Slim Profit margins, discount retailers, off-price retailers, deep discounters.



Where Retailing takes Place

In store vs. non store.

- *In Home Retailing,* selling via personal contacts with customers in their own home. Avon, Electrolux, Amway, Encyclopedias.

  Either cold calling, or calling on a lead.

  Can demonstrate the product.

  Becoming less popular, moving more toward office party plan etc, since more dual earning families.

  Party plan-Tupperware

- *Telemarketing,* direct selling of goods and services by phone, generate sales leads, increase customer service, raise funds for non-profit organizations, gather marketing data.

$13.6 bn per year telemarketing. Successful when combined with other strategies.

Long distance telephone companies.

- *Mail Order Retailing,* sell by description. Compact discs. LL Bean. Eliminate personal selling and store operations.

  Appropriate for specialty products.

  Key is using customer databases to develop targeted catalogs that appeal to narrow target markets.

  $57.4 b sales

  Offers convenience (Place utility), no parking or long lines etc.

  Buy from anywhere, retailer has low rent, small sales staff and no shop lifting.

  Postal rates increased cost of delivery by 14%.

  Sears discontinued 100 year old "Big Book", $3 bn in sales. Why? Mass marketing not in vogue.

  Now Sears provides customer databases from 24 million CC users and partners (Hanover Direct) market specifically targeted catalogs.

  LL Bean ($992 million in 1 year)

  Lands End

  Eddie Bauer

  J. Crew

- *Automated Vending,* less than 2% of retail sales. Most impersonal way of retailing. Convenience Products. High repair costs, restocking cost. Pizza.

  ATMs, Purnell's basement, Restrooms, gas stations.

  Price higher than in stores, consumers pay for convenience.

  Personal products, no human contact.

Snapple new contract to sell its products through its own vending machine, developing another distribution channel (dual distribution).

Pressure on cigarette industry to stop marketing cigarettes through this channel, since it makes cigarettes available to those under 18.

- *Television shopping,* QVC and Home Shopping Network. Total market currently worth $2 + bn per year, projected $25 bn by end of decade.
- Usually bargain products, but Saks 5th Avenue etc. are experimenting.
- Newer networks looking to create a "store" atmosphere, as opposed to a studio atmosphere, looking for more affluent customers.
- Use has plateaued due to:
  - Limited Cable Channel capacity
  - Waiting for improvements in technology, i.e. interactivity.
- Also Infomercials (85% fail), increased sales 20% last year, to $900 million, used for direct sales (retailing) and increasing store sales (advertising).
- QVS and HSN developing Infomercial presence:
- Sell products through home shopping network (test marketability), create infomercials for the winners.
- Impulse (TV shopping)
- Court consumers (infomercials), will this strategy succeed?
- *Electronic Shopping* Using computer on-line services

  Problems:

  Security of monetary transactions

  Who is the vendor?

  Prodigy

  Compuserve

STRATEGIC ISSUES IN RETAILING

Consumer purchases are often the results of social influences and psychological factors. Need to create marketing strategies to increase store patronage.Least flexible of strategic retailing issues and one of the most important. Need to consider:

- Cost
- Location of the target market
- Kinds of products being sold
- Availability of public transportation
- Customer characteristics
- Competitors location
- Relative ease of traffic flow, incl. pedestrian
- Parking and major thorough fares
- Complementary stores

Retail Positioning

Competition is intense. Need to identify an undeserved market segment and service the segment distinguishing yourself from others in the minds of consumers, IE position as high price, high quality with many services, or reasonable quality at "everyday low prices".

Atmospherics

Describes the physical elements in a store's design that appeals to consumers and encourages consumers to buy. Warm, fresh, functional exciting. Exterior Atmospherics-store front, display windows, important to attract new customers. Surrounding businesses, look of the mall etc. Interior Atmospherics-lighting, colour, dressing room facilities etc. Displays enhance and provide customers with information. Need to determine the atmosphere that your target market seeks.

Store Image

Mental picture that a retailer tries to project to the consumer. To a consumer, it is a persons attitude towards a store. Need to project an image, a functional and psychological image in consumer's minds that is acceptable to the target market. Depends on the atmospherics, reputation, number of services offered, product mix, pricing etc.

FAO Schwartz "It is important to leave people with a memorable image of your store. At Disneyland, its Cinderellas castle. For us, its the clock."

PROMOTION PROCESS, SALES PROMOTION AND PUBLICITY

ROLE OF PROMOTION

To communicate with individuals, groups or organizations to directly or indirectly facilitate exchanges by informing and persuading one or more audiences to accept an organization's products.

Companies must communicate with their customers, this communication should not be left to chance.

Design communication to your specific target audience:

- Target Market
- Part of Target Market
- Different stakeholders of your organization.

PROMOTION AND SOCIETY

Marketers need to coomunicate, therefore need a medium to facilitate communication.

$235 bn predicted to be spent in 1994 on advertising WW $94 bn in US.

Pay for media

- TV
- Newspapers
- Radio
- Magazines

Marketers need to communicate, therefore provide funds for *Event Sponsorship* no tax payer money needed to finance the games. Cost $1.54 bn, financed mostly by marketers wanting to use the Olympics as a *medium* to communicate to customers.

Employment, Sales people, Advertising agencies etc.

PROMOTION AND THE COMMUNICATION PROCESS

Nine elements to the communication process.

Sender Chrysler and *Receiver* Target Market (35-50yr aspire BMW/Lexus) are the major parties in the communication process.

Message New Car, Cirrus, comfort of a Lexus and handling of a BMW for less money and the *media* TV, direct mail, Brooks Brothers etc are the major communication tools.

4 more major functions:

- *Encoding*: Putting thought into symbolic form. Advertising Agencies creating radio commercials, TV commercials, prepare direct mail pieces, sales pitch etc.
- *Decoding*: Consumer interprets message. Understanding the target market's perception process is critical.
- *Response*: Reaction of the receiver buy or not to buy, take next step down AIETA, go to the showroom etc.
- *Feedback:* Response communicated back to the sender 1-800 #s, increase in sales. Number of customers in show room etc. Better for Personal Selling, not advertising

Last element is *Noise* in the system, more noise with non-personal communication

Sender needs to know:

- What audiences they want to reach
- What responses they want.
- How the target audience decodes messages
- What media will effectively reach the target audience

PROMOTIONAL MIX

Organizations combine specific ingredients of the promotional mix to promote a particular product.

All promotionals tools (promotional mix):

- Advertising
- Sales Promotion
- Publicity must blend harmoniously into an effective communication strategy, to meet the promotional objectives.

Advertising:

Definition: Paid form of non personal communication about an organization or its products that is transmitted to a target audience through a mass/broadcast medium.

Pros

- Flexibility allows you to focus on a small, precisely defined segment (School newspapers) or a mass market (baseball show = Males, 35-50).
- Cost efficient-reach a large number at a low cost per person, allows the message to be repeated, and can improve public image.
- Allows for repeating the message-lets the buyer receive and compare the messages of various competitors.
- Very expressive, allows for dramatization.
- Also used to build a long term image of a product.
- Trigger quick sales, Sears advertising a weekend sale.

Cons

- Absolute $ outlay very high, make a national TV ad. approx $150,000, local ad. $60,000. 30 second spot, Superbowl $1.1 m 1995
- Rarely provides quick feedback, or necessarily any feedback
- Less persuasive than personal selling
- Audience does not have to pay attention

- Indirect feedback (without interactivity)

Cirrus...used national advertising, local, direct mail, posters etc.

Personal Selling

Occurs through personal communication in an exchange situation.

- More specific communication aimed at one or more persons.
- Effective at building buyers preferences, convictions and actions.
- Cost per person is high, most expensive promotional tool.
- Greater impact on consumers
- Provides immediate feedback
- Allows marketers to adjust message quickly to improve communication.
- Buyer feels a great need to listen and respond.
- Long term commitment is needed to develop a sales force.

Cirrus..sales representatives in show rooms.

Public Relations/Publicity:

News story form about an organization or its products or both (MBA, Philadelphia Inquirer), through mass medium at no charge.

Sponsor does not pay (generally), may be expected/ required to run advertisements in the media. Can be positive and negative. Pepsi Syringe.

Believable

Cirrus...Articles in Car and Buyer, WSJ, and this article etc.

SELECTING PROMOTIONAL TOOLS

A marketer must do the following while planning and sending communications to a target audience:

1. Identify the Audience

   Individuals, groups, special publics or the general public.

   Intermediaries vs Consumer

2. Identify the Stage of Product Life Cycle

   - Introductory *Inform* Publicity/Advertising/Sales force (interm.)/Sales promotion (free samples)
   - Growth *Persuade* Differentiate from competitors offering
   - Maturity *Remind* Reminder advertising, Sales promotion (coupons)
   - Decline Cut budget

3. Product Characteristics

   - *Complexity* How much information must be communicated. The more complex the message, the greater the need to use personal selling.
   - *Risk* Greater risk, greater need for personal selling

4. Stages of Buying Decision: In many cases the final response sought is purchase, but purchase is the result of a long process of consumer decision making. Need to know where the target audience now stands (in the process), and what state they need to be moved to.

   Adoption Process

   - *Not Aware*—Advertising/Publicity
   - *Aware*—no knowledge Advertising/Publicity
   - *Interest*—how do they feel? Personal Selling/ SalesPromotion/Advertising
   - *Evaluation*—should they try? sales promotion/ personal selling
   - *Trial*—test drive/sales promotion
   - *Adoption*—do they purchase? Reminder/reinforce—advertising

   Communication programmes goal must lead consumers to take the final step.

5. Channel Strategies
   - Push Vs Pull Policy
   - *Push*-promotes product only to the next institutions down the marketing channel. Stresses personal selling, can use sales promotions and advertising used in conjunction.
   - *Pull*-promotes directly to consumers, intention is to create a strong consumer demand, primarily advertising and sales promotion. Since consumers are persuaded to seek products in retail stores, retailers will in turn go to wholesalers etc. (use channels overhead)

NATURE OF SALES PROMOTION

Encompasses all promotional activities and materials other than personal selling, advertising and publicity. Grown dramatically in the last ten years due to short term focus on profits. Funds are usually earmarked for advertising are transferred to sales promotion.

Often used in conjunction with other promotional efforts.

SCOPE AND IMPORTANCE OF SALES PROMOTION:

- 323 billion coupons were distributed 1993 nationally annually (3,200/household), *only* 2.3% are redeemed.
- 9000 trade shows containing 10 exhibits or more/year. New York auto show attracts more than a million people per year.
- $15-20 billion/year spent on point of purchase material in stores.

Why??

- Companies are looking to get a competitive edge
- Quick returns are possible for short term profits
- More consumers are looking for promotions before purchase
- Channel members putting pressure on mf. for promotions

- Advances in tech. make SP easier (ie coupon redemption)

SALES PROMOTION OPPORTUNITIES AND LIMITATIONS

- Increase in sales by providing extra incentive to purchase. May focus on resellers, consumers or both.
- Objectives must be consistent with promotional objectives and overall company objectives.
- Balance between short term sales increase and long term need for desired reputation and brand image.
- Attract customer traffic and maintain brand/company loyalty.
- Reminder functions-calendars, T Shirts, match books etc.
- Impulse purchases increased by displays.
- Contests generate excitement esp. with high payoffs.

Limitations

- Consumers may just wait for the incentives.
- May diminish image of the firm, represent decline in the product quality.
- Reduces profit margins, customers may stock up during the promotion.
- Shift focus away from the product itself to secondary factors, therefore no product differential advantage.

SALES PROMOTION METHODS

Consumer Sales Promotion Techniques:

Encourage/stimulate customers to patronize a specific retail store or to try a specific product.

- Coupons: Usually reduce the purchase price or offered as cash. Need to state the offer clearly and make it easy to recognize.
- Demonstrations: Excellent attention getters. Labour costs are usually high.

- Frequent User Incentives: Major airlines, helps foster customer loyalty to a specific company. Credit card companies. Trading stamps-Co-ops back in England, foster retail loyalty.

  Blockbuster's new credit card offers company products based on card usage. Cindy Crawford "Why wait for whats coming to you" Co-Branded with immediate rewards...this is what is *very* appealing about this card...immediate reward, as opposed to having to build up points for an air flight etc.

  Airlines have had to raise the threshold of their award programmes 35,000 from 20,000, 2 free round trip tickets due to $3+trillion liabilities

  Long Distance telephone also offer free air miles, >$25/mo = airmiles

  Frequent User cards are used to collect information for companies enabling them to better target their customers.

- Point of Purchase Display: Outside signs, window displays, counter pieces, display racks. 90% of retailers believe that point of purchase materials sell products.

  Essential for product introductions. Also with 2/3 of purchasing decisions made in the store, they are important.

- Free Samples: Stimulate trial of product. Increase sales volume at the early stage of the product life cycle and obtain desirable distribution.

  Most expensive sales promotion technique.

  Not appropriate for mature products and slow turnover products.

- Money Refunds/Rebates: Submit proof of purchase and mail specific refund, usually need multiple purchase for refund. Helps promote trial use, due to the complexity of the refund, it has little impact.

  Customers have a poor perception of rebate offered products.

Used extensively in the Auto and Computer industry.

- Premium Items: Offered free or at minimum cost as a bonus. Used to attract competitors customers, different sizes of established products.

  Gas stations give free glasses—basics buy!! McDonalds premium items are considered collectors items by some!

Flintstones programme last year with McDonalds.

Burger King with the Lion King movie

Last summer the following tie-in premium programmes.

- Casper with Pepsi, Pizza Hut, Choice Hotels
- Congo with Taco Bell
- Batman Forever with McDonalds, Kelloggs, Six Flags, Sears
- Pocahontas with Chrysler, Nestle,General Mills, Burger King
- Mighty Morphin with McDonalds

- Cents-off Offer: Strong incentive for trying a product-very similar to coupons, but are a part of the package.
- Consumer Contests and Sweepstakes: Consumers compete based on their analytical or creative skills. Must be accurate or you will anger customers/retailers.

  Sweepstakes are prohibited in some states.

Trade Sales Promotion Techniques

Push Policy emphasizes promotions focused on the next intermediary.

Trade Sales Promotion Techniques-stimulate wholesalers and retailers to carry products and to market them aggressively.

Producers use sales promotion techniques to encourage resellers to carry their products and to promote them more effectively.

- Allowances and Discounts:
  - Merchandise...reimburse for extra retail support, i.e. advertising, shelf space

   - Case...discount on cases ordered in specific period.
   - Finance...Paying for financial costs/losses associated with consumer sales promotions.
- Cooperative Advertising: Manufacturer agrees to pay a certain amount of retailers media.
- Training of Sales Staff

PUBLICITY

At no charge (most of the time) Part of public relations, a broad set of communication activities used to create and maintain favourable relations between the organization and its publics:

- Customers
- Employees
- Stockholders
- Government officials
- Society in general

Need to cultivate effective media relations, and targeting publicity to key markets are viewed as the highest priorities.

Communicators Guide To Publicity

- What is news?
- Planning Publicity Programme
- Writing a news release
- Photographs
- Radio and TV News

PUBLICITY AND ADVERTISING COMPARED

- Publicity is primarily informative
- Advertising is informative and persuasive
- Publicity is more subdued
- Publicity does not identify the sponsor
- Publicity is free (!)

- Publicity is part of a programme or print story and appears more objective
- Publicity is not subject to repetition
- Publicity is more credible
- Little control over publicity

DEALING WITH UNFAVOURABLE PUBLICITY

Bad news receives much attention in the media. Need to deal with bad publicity.

First, need to try to reduce the # of incidents that produce negative publicity (effective TQM etc.), use policies and procedures to cover negative publicity.

Expedite coverage as opposed to blocking it.

Avoid rumors and misinformation.

Limitations of Using Publicity

Media must judge publicity to be news worthy, timely, interesting and accurate.

Cannot control the content or timing.

PERSONAL SELLING AND SALES MANAGEMENT

SCOPE AND IMPORTANCE OF PERSONAL SELLING

In the US, 14 million people are employed in sales positions, according to the department of labour.

Sales personnel include stockbrokers, manufacturing sales representatives, real estate brokers etc.

Most students in this class will have been employed as a sales person.

NATURE OF PERSONAL SELLING

Gives marketers:

- The greatest freedom to adjust a message to satisfy customers informational needs, dynamic.

- Most precision, enabling marketers to focus on most promising leads. vs. advertising, publicity and sales promotion
- Give more information
- Two way flow of information, interactivity.
- Discover the strengths and weaknesses of new products and pass this information on to the marketing department.
- Highest cost. Businesses spend more on personal selling than on any other form of promotional mix.
- Goals range from
  - Finding prospects
  - Convincing prospects to buy
  - Keeping customers satisfied—help them pass the word along.

TYPES OF SALES PERSONS

- Order Takers: Seek repeat sales, make certain that customers have sufficient product quantities where and when they need it. Do not require extensive sales effort. Arrange displays, restocks them, answer phone calls. Low compensation, little training required. High turnover of personnel. 2 types:
  - *Inside Order Takers* receive orders by mail/phone, sales person in a retail store.
  - *Field Order Takers* travel to customers. Use laptop computers to improve tracking of inventory and orders etc.
- Order Getters: Sell to new customers and increase sales to present customers, sometimes called creative selling.

  Generate customer leads, provide information, persuading customers and closing sales. Required for high priced, complex and/or new products. High pressure, requires expensive, time consuming training.
- Support Personnel: Facilitate the selling function. Primarily business to business products.

- *Missionary Salespeople:* Distribute information regarding new goods or services, describes attributes and leaves materials, does not close sales. Assist producers' customers in selling to their own customers. IE call on retailers and persuade them to carry the product. Pharmaceuticals may go to doctors offices and persuade them to carry their products.
- *Trade Salespeople:* May perform order taking function as well. Spend much time helping customers, especially retail stores, to promote the product. Restock the shelves, set up displays. Technical Salespersons Offer technical assistance to current customers. Usually trained engineers etc.
- *Service Salespeople:* Interacts with customers after sale is complete.

Team selling...entire team of selling professionals in selling to and servicing major customers, especially when specialized knowledge is needed to satisfy different interests in customers' buying centers.

ELEMENTS OF THE PERSONAL SELLING PROCESS

No 2 salespersons use exactly the same sales method, but it is generally a seven step process:

Prospecting and Evaluating

Seek names of prospects through sales records, referrals etc., also responses to advertisements. Need to evaluate if the person is able (Undergraduate degree to attend a graduate programme), willing and authorized to buy. Blind prospecting-rely on phone directory etc.

Preapproach (Preparing)

Review key decision makers esp. for business to business, but also family

- Assess credit histories
- Prepare sales presentations
- Identify product needs.

Helps present the presentation to meet the prospects needs.

Approaching the Customer

Manner in which the sales person contacts the potential customer. First impression of the sales person is Lasting and therefore important.

Strive to develop a relationship rather than just push the product.

Can be based on referrals, cold calling or repeat contact.

Making the Presentation

Need to attract and hold the prospects *A*ttention to stimulate *I*nterest and stir up *D*esire in the product so the potential customer takes the appropriate *A*ction. AIDA

Try to get the prospect to touch, hold or try the product. Must be able to change the presentation to meet the prospect needs.

Three types of presentations:

- *Stimulus Response Format:* Appropriate stimulus will initiate a buy decision, use one appeal after another hoping to hit the right button...Counter Clerk @ McDonald's "Would you like fries with your burger?"
- *Formula Selling Format:* (Canned Sales Presentation) memorized, repetitive, given to all customers interested in a specific product.

  Good for inexperienced sales people.

  Better with heavily advertised items that are presold.

  Telemarketing a credit card!!
- *Need Satisfaction Format:* Based on the principal that each customer has a different set of needs/desires., therefore the sales presentation should be adapted to the individual customer's needs, this is a key advantage of personal selling vs. advertising.

Sales person asks questions first, then makes the presentation accordingly.

Need to do homework, listen well and allow customers to talk etc.

Must answer two types of questions:

- For more information
- Overcome objections.

Closing

Ask prospect to buy product/products. Use trial closes, IE ask about financial terms, preferred method of delivery.

20% sales people generally close 80% sales., Avon, over 1/2 US $1.4 bn business from 17% of 415,000 SRs.

Need to be prepared to close at any time. The following are popular closing techniques:

- Trial Close (Minor decision close)
- Assumptive close (Implied consent close)
- Urgency close
- Ask for the sale close

If prospect says no, they may just need more reasons to buy!!

Following Up

Must follow up sale, determine if the order was delivered on time, installation OK etc. Also helps determine the prospects future needs. Accomplishes four objectives:

- Customer gain short term satisfaction
- Referrals are stimulated
- In the long run, repurchase
- Prevent cognitive dissonance

Old school, sell and leave!!—Quickly before customer changes her mind!!

Now:

- Stay a few minutes after sale—reinforce, make them feel good, made wise choice, leave small gift (with co. name on it!!), call office at any time etc!!

- Follow up, reinforce, know birthdays, new year etc, friendly correspondence...relationship building!!

MANAGEMENT OF SALESFORCE

- Sales force is directly responsible for generating sales revenue.
- Eight general management areas:
- Establish Salesforce objectives
- Similar to other promotional objectives
- Demand oriented or image oriented.
- Major objective is persuasion, converting consumer interest into sales.
- Sales objectives; expected to accomplish within a certain period of time.
- Give direction and purpose and act as a standard for evaluation.
- Set for total salesforce and each individual salesperson.
- Can be $s, units sold, market share to achieve, for individual salespersons, also include ave. order size, ave. # of sales/time period, and ratio orders/calls.

Organizing the Salesforce

- In-house vs. independent agents (manufacturer's sales agents).
- Organize by:
- Geography (simplest, but not suitable if product(s) are complex or customers require specialized knowledge)
- Customer: Different buyers have different needs
- Product: Specific knowledge re: products is needed
- Size. Marginal analysis, or determine how many sales calls/year are needed for an organization to effectively serve its customers and divide this total by the average # of sales calls that a person makes annually. Also use subjective judgement.

MBNA estimates how many calls to expect, one year in advance, and then determines the size of the salesforce at any given time.

Recruiting and Selecting Salespeople

Need to establish a set of required qualifications before beginning to recruit. Prepare a job description that lists specific tasks the salesperson should perform and analyze traits of the successful salespeople within the organization.

May use assessment centers—intense training environment that places candidates in realistic problem settings in which they give priorities to their activities, make and act on decisions.

Recruitment should be a continual activity aimed at reaching the best applicants.

Applicants that most match the demographics of the target market. Changing demographics, may be wise to hire hispanic sales people if your territory is in Florida!!

Training Sales Personnel

Use formal programmes, or Informal on-the-job training. Can be complex or simple.

Training should focus on:

- The company
- Products
- Selling techniques.
- Aimed at new hires *and* experienced personnel.
- Can be held in the field, educational institutions or company facilities.
- Oldsmobile spent $25 million last year to teach its dealers how to better treat its customers.

Compensating Sales People

To attract, motivate and retain sales people, that facilitate and encourage good treatment of the customers. Need to understand personalities of sales people. Strive for proper balance of freedom, income and incentives.

Need to determine the best level of compensation required, and the best method of calculating it.

- Straight salary
- Straight commission (selling insurance)—single percentage of sales or sliding rate
- Combination plan

Motivating Sales People

Need a systematic approach, must also satisfy non-financial needs:

1. Job security
2. Working Conditions
3. Opportunities to succeed

   Sales contests increase sales.

   Symbolic awards—plaques, rings etc.

   Can also use negative motivational methods for under performers.

   Due to burn out—even the best need motivating!!

   Ongoing process...keep reps. hungry

   Need a motivational programme.

   Spend time with reps, personal attention!!

   Take interest in them and the sales goals
4. Compensation packet that rewards quality salesmanship and extra effort
5. Recognition of extra effort of sales force
6. Make sure SR feel important
7. Keep SR informed of company activities
8. Make certain reps. believe in the company
9. Goals must be realistic and achievable and changeable
10. Determine what they want and give it to them
11. Controlling and Evaluating Salesforce performance

Rely on information from call reports, customer feedback and invoices. Performance is determined by objectives. May compare with predetermined performance standards or with other sales people working under similar conditions.

SERVICE MARKETING

A service is an intangible product involving a deed, performance, or an effort that cannot be physically possessed. Dominant component is intangible.

Includes rental of goods, alteration and repair of goods owned by customers, and personal services. Major differences between goods and services are:

- Intangibility
- Inventory—over/under booking restaurant capacity
- Inseparability—of production and consumption
- Inconsistency/Consistency

THE USE OF MARKETING BY SERVICE FIRMS

Has been limited to:

- Many service firms stress technical expertise, therefore have lagged in their use of marketing.
- Many service firms are small, marketing expertise cannot be hired.
- Strict licensing/legal restrictions limit competition and need for marketing.
- Service associations have prohibited marketing.......Lawyers until 1977; when the US Supreme Court struck down such prohibitions as against freedom of speech...Jacoby & Meyers et al.
- High esteem of professionals, do not need marketing. A number of professionals have a dislike for marketing and a lack of understanding.

Use of marketing is likely to increase rapidly in the near future....due to competition etc.

SPECIAL CONSIDERATIONS FOR SERVICE MARKETING

Must consider how the intangible/inventory/inseparable/ inconsistency component effect the service.

INTANGIBILITY

Prior to purchase, much service promotion must rely on performance attributes which can only be measured after a purchase experience (tangible goods have search qualities). Also professional services have credence qualities. Need to use promotion to help customers perceive a service as highly tangibility.

- Develop tangible representation of the service, ie credit card serves as the physical product with own image and benefits. Make advertising easier. Airlines use an aircraft. Travellers umbrella.
- Develop a brand image—seek out U Haul as opposed to a truck service

INVENTORY

Services cannot be stockpiled. Need to avoid excess unsatisfied demand and excess capacity leading to unproductive use of resources.

INCONSISTENCY

Lawn care service cannot mow a lawn precisely the same way each time, but need to make the service as efficient and consistent as possible.

INSEPARABILITY

Leads to direct (short) channels of distribution. In some cases it is possible to use intermediaries, travel agents, ATMs etc. Close provider-customer relationship—employee interpersonal skills very important. "relationship managers", quality of relationships determines the probability of continued interchange with those parties in the future. Customers may become loyal to a particular employee as opposed to the company, prevalent in the advertising industry. Therefore must make sure that multiple employees are capable of performing the same tasks.

THE EXTENT OF SERVICES IN THE ECONOMY

US is the worlds first service economy. More than 75% of the workforce in the private sector is employed in the service industry.

Accounts for more than $3bn in output and contribute 60% of GNP.

60% of services are consumed by the final consumer.

The increase in the service sector is a result of LT growth in the US economy deriving demand for additional services

- Travel
- Financial services
- Entertainment
- Personal care etc.

Dual income families need for convenience.

Increase in health awareness.

ILLUSTRATION OF SERVICE MARKETING

- Marriot Hotels: (discussed when reviewing market segmentation)
- Offer different services for different segments of their target market.
- Great attention paid to product positioning.
- Rely on research, publicity, TV advertising, use of well conceived slogans and greater personal attention to consumers.
- Quick resolution to customer problems—overbooking, long customer lines, unresponsiveness, discourteous staff.
- Hotels now offer alternative accommodations for over booking, computerized check out systems, express

check outs, serving free drinks, provide baggage handling etc.

NON PROFIT MARKETING

Conducted by organizations and individuals that operate in the public interest or that foster a cause and do not seek financial profits.

- Involve organizations-Charitable groups, Unions, Universities etc.
- Involve people-political candidates etc.
- Involve places-resorts, convention centers
- Involve ideas-stop smoking as well as goods and services
- Perform exchanges but not necessarily monetary (votes).
- Price is not necessarily a reflection of the costs or values.

NON PROFIT VS. PROFIT ORIENTED MARKETING

- Combination of goals, ie, raise $250,000 from government grants, increase client usage, find cure for disease, change public attitudes, and raise $750,000 from private investors. Goals also include number of clients to be served, amount of service rendered and quality of service provided.
- Social marketing
- Pricing may be fixed (zoo) or variable (fundraising), also significant is the opportunity cost of volunteers
- May rely on infrequent fundraising efforts to generate funds as opposed to day to day revenue stream
- Successful programme may lose money if goods are provided at less than cost
- Objectives can be complex since success or failure cannot be measured in financial terms
- Usually 3 constituents (3 distinct target markets)-Clients, Donors and Volunteers, need to develop a marketing mix for each target market

- Many times, beneficiaries are not the contributors and vis a versa. The owner is not the beneficiary, as in business marketing
- May need to serve target market that is unprofitable to serve, Amtrack, Postal service
- Legal advantages, tax deductible contributions, exemptions from sales and real estate taxes, reduced postal rates.
- Primarily ideas and services as opposed to goods. Need to define what is being provided, ie., Peace Corpse, vocational training, health services, nutritional assistance and community development, also international cooperation.
- Very flat channels, non-business marketer to client.
- Rely on personal selling (volunteer recruiting) and advertising, sponsor ship, Public service announcements.

TASKS

Gaining an appreciation for the types of marketing tasks performed in a professional service organization is the base of the material in this book. Defining the different types of marketing tasks that the professional is required to perform is critical to understanding the marketing person. This task analysis is at the cornerstone of building a marketing-oriented professional service organization.

At first glance, these statements may sound like a high school science teacher proclaiming that understanding atomic fusion is mostly a matter of comprehending the atom. It may be a bit obvious and overstated but, in reality, understanding the tasks that people must complete is at the core of building a successful professional service organization. One methodology to define these tasks is the subject of this chapter.

The definition of a marketing-oriented professional service person presented here begins with identifying the marketing tasks to be performed. Simultaneously, the level in the organization that is required to perform these tasks is identified. The SKAP (Skill, Knowledge, Ability, Personal characteristics) profiles of the individuals who perform the tasks will be discussed later. This is a simple definition of the tasks and identification of levels in the organization at which they should be performed.

The following figure provides an introduction to the types of tasks and level of responsibility associated with each task in a marketing-oriented professional services firm. The steps rise from a low of 1, labeled Technical Competence, to a high of six, labeled General Management.

POSITION LEVEL AND INDIVIDUAL TASK RESPONSIBILITY SCALE

6 General Management

5 Market New Products to New Clients

4 Market Existing Products to New Clients

3 Market New Products to Existing Clients

2 Market Existing Products to Existing Clients

1 Technical Competence

No particular tides are assigned to any of the steps, but generic titles like

6 = Senior Executive/Partner

5 = Vice President

4 = Regional Manager

3 = Manager

2 = Senior Consultant

1 = Consultant

Clearly, each higher level represents an increase in sales/ marketing responsibility. Using this configuration, the consultant has the lowest level of sales responsibility, and the senior executive has the highest level of sales accountability. The higher a person reaches in the marketing-oriented professional service organization, the greater the necessity for that person to demonstrate sales and marketing expertise. While these descriptions are not intended to belittle the other facets of the professional person's responsibilities, they focus primarily on marketing/sales duties as they exist in a professional firm.

Technical Competence

To have technical competence means that a person demonstrates the basic skills necessary to perform the technical job functions. These functions may include performing professional services in architecture, construction, software design, engineering, law, medicine, actuarial service, business consulting, financial services, or other areas of professional expertise. The level 1 position does not necessarily include any requirements for sales activity, but the person should possess the basic interpersonal skills necessary to effectively function in a professional office environment. Level 1 is the most basic level of acceptable ability to gain entrance into the firm.

This does not mean that the level 1 person is weak in non-technical areas. He must still meet whatever level of SKAP criteria is established for joining the organization. The candidate may still have to be highly intelligent, thoroughly knowledgeable, and socially interactive in the workplace. He is required to perform technically competent work assignments and interact socially with clients about task-related issues. Some level 1 professional service personnel are technically superb and consistently perform at a high technical level. Many peer consultants seek out their advice and readily endorse their findings. Clients often want these technical wizards on their projects because they have worked with them and welcome their technical input on projects.

These highly skilled technical people are not necessarily proactively marketing the firm's products and services. They readily demonstrate a variety of demeanors. Frequently they are unassuming, mild mannered, and team oriented and are willing to do whatever it takes to complete a job on time and within budget. Everybody likes them for their technical skill, strong work ethic, and general ability to get along in the workplace.

As a rule, however, level 1 people do eagerly work with clients in the process of marketing additional products and services, even though the position description does not include any direct marketing/sales responsibilities. It may be that only people with the *potential* to develop marketing skills and with specific levels of interpersonal skill are acceptable even at this level. The decision to include such a minimal level of interpersonal skill is part of defining the SKAP profile for an entry-level (technically competent) person.

Existing Products to Existing Clients

A person designated to market existing products to existing clients is one who demonstrates the basic SKAP profile to perform functions at levels 1 and 2. Because level 2 is the first at which some marketing skills are required, the level 2 person must be technically competent and also able to market the firm's existing products to existing clients.

This may seem like a small step up from level 1, but it can represent a significant increase in interpersonal skills. Some people have great technical expertise but have few marketing skills. The two skills though different are not mutually exclusive; yet, it is important to recognize that some people possess one skill while others are graced with both.

The SKAP profile of the person at level 2 reveals that he or she is technically competent but also possesses some marketing-oriented inter personal skills. This marketing-oriented person is potentially more valuable than the person who is only technically competent. The ability to market existing products/services to existing clients is the first step in the marketing process. It involves:

1. Understanding the firm's products,
2. Recognizing client needs, and
3. Possessing the interpersonal skills to help the client recognize the potential match.

Different professionals demonstrate varying levels of comfort in performing these tasks, but the growth of the firm is dependent upon such ability.

Market New Products to Existing Clients

The person who can market new products to existing clients possesses the basic SKAP profile to perform levels 1 through 3. He or she is technically competent, can sell existing products to existing clients, and finally has the ability to sell new products to existing clients. Again, this can seem like a small increment beyond level 2; yet, the measurable difference in skill between levels 2 and 3 is significant.

The reason for this difference is built into human nature: simply stated, most people resist change. They prefer the status quo. People are comfortable with existing conditions and are not necessarily eager to change their current circumstances. The word new means a change in their life, and for most people new means risk, possible loss, and a difference in established habits. Although this is not an easy barrier to overcome, it can be accomplished. At this step the process of change in marketing professional services is generally made in one of four ways.

The first way to accomplish this progression requires years of marketing experience. It is frequently based on the development of long-term client contact. In this case, professional service people have strong interpersonal ties with their existing clients, who will provide them with an eager audience for any new products they care to present. The level 3 person typically has a well-established (even entrenched) relationship with his clients, and they like him, trust his judgment, and believe his recommendations.

The professional may also have a close personal/professional friendship with a key senior level person. The result is that the work is performed in a professional manner but, more importantly, the marketing effort to establish the relationship is based more on the personal contact than the technical competence of the professional. The professional possesses full technical abilities, but his or her interpersonal skills are the key element in securing the assignment.

The second way of gaining this progression to level 3 is typically through years of proven technical competence. In this case, the professional providing the technical service is less interpersonally skilled, but he possesses technical competence on which the client comes to rely. In the client's eyes, the professional's recommendations become "bankable." For example, as is occasionally heard in professional services,

"If Joe (the professional consultant) said it, you can bank on it." In this case, the professional service person has created an indelible mark of credibility with the client. The client is available to him because he has repeatedly proven to be effective with them. He provides a valuable service and introduces the client to products that are especially appropriate for them. Sometimes the client accepts this person's recommendations, and sometimes not, but the professional consistently provides up-to-date and important advice to the client.

These first two approaches for advancing to a level 3 marketing oriented professional are frequently used when professionals in the firm market to their own clients. However other methods do exist. A third alternative uses either of the two methods described above but with an introduction to the client by another member of the firm. The client may be new to the individual professional service person, but the client is an existing client to the firm.

This means that an introduction to the existing client is made by another professional service person in the firm. In this situation the level 3 person with sophisticated interpersonal skills is able to market the firm's products using his superior interpersonal skill. Likewise, the technical person is able to market to the existing client by impressing him with his technical expertise. The key element of the transaction is that the *introduction* to the existing client is made by another professional in the firm.

The fourth approach can require some product/service that is so technically advanced in terms of current product/service availability that a short description of it almost warrants an audience with a potential client. In this case, the product itself, despite the level of technical or interpersonal competence of the consultant, warrants an introduction. It may be a state-of-the-art product/service that has gained popular support among other clients, or it may be that it has been mandated by the government-for example, a new federal or state tax regulation, OSHA requirement, or employee benefit regulation.

In any case, the product is in demand and requires a comparatively high degree of technical competence; hence the need for the services of a professional service organization. The interpersonal sales skills of the professional are secondary to the technical skills necessary to deliver the product. Client interaction and marketing skills are necessary, but the level of product technical complexity and overall demand are so great that access to clients is almost automatic. Some sales are sure to follow.

Existing Products to New Clients

To market new products to new clients means that the professional person possesses the basic SKAP profile to perform levels 1 through 4. The level 4 person is technically competent, can sell existing and new products to existing clients, and has the ability to sell new products to existing clients. Although this can seem like a small increment from level 3, the measurable difference in the SKAP profile between levels 3 and 4 is significant. To be at level 3 requires the professional to generate new sales. Level 4 requires the professional to find new customers.

To highlight the difference in degree of difficulty between these two steps, ask any group of professional people to do both: To increase their marketing activity by marketing new products to existing customers, and market existing products to new customers. See which activity they enjoy and complete more often. Determine the source of the most sales increases. Measure which area brings in the most business. Almost invariably the professional person will create more sales with existing customers than with new clients. By way of military analogy, when a new island objective has to be taken from a hostile force, members of the Marines are called in to "take" the island.

The members of the Army are then brought in to "hold" the island. In essence, the primary difference in performing these sales duties lies in the interpersonal skills of the people performing them. The higher level requires greater interpersonal skills.

The key reason for the dramatic difference between levels 3 and 4 is that level 4 involves marketing to new clients. The first three steps focus on marketing to existing clients and are appropriately grouped as a sales service marketing function. Steps four and higher involve marketing to new customers and represent a sales development marketing effort. This single change from steps three and below to steps four and above requires a significantly different SKAP profile. Developing client relationships and selling products and services to new clients are dramatically different from servicing existing ones.

The SKAP requirements for the first three steps are increasingly difficult. However, taken together, they generally involve a large "service" component. The marketing responsibilities in these first three steps focus on preserving and maintaining the current clients. In essence, the marketing effort is largely reactive. The focus is on building the volume of business these clients provide by reinforcing the comfortable attitudes they already have about the professionals in the firm and the quality of services provided. The primary function of the service sale is to continue an already established professional relationship. The client's preferences, habits, and idiosyncrasies are relatively known and reasonably predictable.

The SKAP requirements for each of the steps four and higher are also increasingly difficult, and they assume skills in the first three levels are present. Functioning successfully at level 4 means meeting new clients and convincing them to use the firm's services. This means either changing the prospective client's attitude about a firm already employed, and portraying the new firm in a better light, or including a brand new service or product and convincing the possible client to begin using the service.

All of the steps at level 4 involve change for the client—which, as was already discussed, is inherently difficult. In this case, the professional person must bring about a conversion process. The purpose of this sales development activity is not so much a single sale of a given product or service, but the establishment of a new client. A single, new client relationship, once established, can lead to additional sales. The difficult part is establishing the client relationship.

Market New Products to New Clients

To be able to market new products to new clients means that the professional person possesses the basic SKAP profile to perform steps 1 through 5. He or she is technically competent and is proficient at marketing the firm's products and services at all the lower steps. Marketing at level 5 of technical competence and interpersonal sophistication requires consummate knowledge, skill, and ability. In some ways, this person is required to possess the widely different skills described in step three. He or she must be highly competent technically and interpersonally.

To operate successfully at this level, initially the professional must identify the potential organizations that are worthwhile for contact. He must gain access to the executives in these organizations and meet them on a favourable basis. Once contact is made, the professional must demonstrate empathy for the client's problems and appear to be the source for solving them. The level 5 professional is required to understand the issues that are crucial to the client.

Once this relationship is established, the next step is to help the client to understand the need for change. The client needs to accept the professional's advice concerning a new product/service that he is offering. The professional may need to foster some seeds of discontent with the status quo and guide the prospective client to learn for himself the value of using the new services. Once the client shows a basic readiness to accept the new product or service, the professional must encourage the client to actually make the change. This is the most critical step. The service professional may have to patiently convince, motivate, and cautiously lead the potential client to the final step of authorizing the new process.

The level 5 professional will then need to reassure the client during the initial stages of implementation of the service. However, the best professionals at this level will gradually lead the client to develop professional relationships with others in the firm who are operating in a service mode. This means that at the implementation stage the step 5 professional is off this specific assignment and is looking for yet another new client to begin the marketing process all over again. Generating new clients is a challenging process, but it distinguishes the level 5 marketing-oriented professional from the others at lower levels.

General Management

A person at level 6 possesses the basic SKAP profile to perform steps 1 through 6. As the name implies, the person who qualifies for this SKAP profile is not only fully knowledgeable of the firm's areas of technical competence and marketing skills, but he or she also possesses a broad level of managerial expertise that involves overall strategic planning and long-term firm development.

The person who holds this position should be both highly technically competent and possess consummate marketing skills. It is impossible for the individuals at this level of the firm to be experts in all facets of the business and to be able to market all the firm's products; however, these individuals should have one core area of technical competence in which they are considered very knowledgeable. They need not be the best in the firm in a given area, but they should be considered very knowledgeable. They also need to demonstrate a broad ability to effectively market the firm's products and services at the highest levels.

This position is not an administrative one. It requires technical knowledge and interpersonal skills that can be used to form new strategic alliances with new clients or to develop associations that will lead to new products. These relationships/products are then handed off to personnel at a lower level in the organization to further develop these relationships.

The primary function of every person at each higher step in the organization is to provide sales opportunities for the people in lower positions. The requirements for the higher positions are increasingly difficult and the risks associated with success in these positions are ever greater.

The responsibilities at level 6 of a professional service organization reinforce the notion that "it's lonely at the top." Moreover, the leaders of the most effective marketing-oriented professional service organizations recognize this ladder and use it to increase their market share and market penetration. The other managerial (non-sales) requirements for this position are generally beyond the scope of this chapter.

In summary, the Task Step Progression outlines the six steps necessary to be effective at each level of a marketing-oriented professional service organization. Identifying the tasks necessary to build an organization is the first issue and basis for this book. Thus far a series of definable marketing-oriented levels have been presented. A SKAP profile of individual candidates can now be compared against a series of job tasks and levels.

2

The Domain of the Marketing Discipline

COMMENTS ON EXTENDING

Marketing is a discipline concerned with human behaviour engaged in exchange or potential exchange within a market. Since the idea of expanding the domain of the marketing discipline was introduced into mainstream marketing literature in the 1960's and early 1970's (, there has been a certain amount of dissent regarding the proper domain of marketing — although in a much muted state over the past decade. It is generally accepted that the discipline of marketing is concerned with explaining the act of exchange and the endogenous and exogenous variables that are associated with exchange, but it is unclear that a consensus has evolved as to what types of exchange are to be included in the domain of the discipline.

Bagozzi has been a major proponent for incorporation of "social marketing" into the marketing discipline. Bagozzi writes that: social marketing, then, addresses a particular type of problem which, in turn, is a subset of the generic concept of marketing. That is, social marketing is the answer to a particular question: Why and how are exchanges created and resolved in social relationships?

Although Bagozzi offered no formal definition of "social marketing" in that particular work, there should be no disagreement among marketing scholars that concepts, such as power, persuasion, commitments, norms, and alternative sources, graphically outlined in hierarchical form by Bagozzi, influence behaviour exhibited during exchange. Indeed, any marketing theory that leaves out such influences on exchange behaviours would be remiss. These concepts were traditionally left out of classical and neoclassical economic exchange behaviour theory and consequently gave rise to limited explanatory power.

The origins of social exchange theory lie in the inability of classical and neoclassical economic exchange theory to explain a large portion of exchange behaviour. Recognizing such deficiencies has led social exchange and economic exchange to differ on at least two factors. These are the unit of analysis and the basic assumptions typically made. Economic exchange is taken to be a market exchange of some item, typically a form of money, for a good or service within an economic setting involving competition, governmental regulation, suppliers, and buyers. In contrast, social exchange is taken to be "exchange created and resolved in social relationships" and includes exchange of "intangible entities".

The first distinction made between economic exchange and social exchange is that social exchange incorporates a longitudinal orientation toward exchange relationships existing over time, and the unit of analysis is not an individual and his or her respective decision-making process, as is the case with economic exchange; but rather the unit of analysis is an exchange relationship between individuals.

Emerson recognizes that such a unit of analysis raises the unanswered question "of course, in taking the [exchange] relation as the empirical and conceptual unit, we forego the right to explain the individual's behaviour in terms of his own values. But what important insight do we lose when we give up this sort of 'explanation'?" Thus, to avoid the criticism of tautology that is often made against the use of an individual's values, rationality, and rewards as the unit of analysis, the individual becomes an analytic tool useful for describing a relational process.

A second distinction made between social and economic exchange theory is that social exchange theory succeeds where economic exchange theory fails. This failure is a result of commonly made restrictive assumptions of complete and costless information. However, new evolutionary economic thought has recently developed within transaction cost and agency theory paradigms, closing the separation between social and economic exchange which arises from the commonly made economic exchange assumptions.

ISSUES ADDRESSED

Should the domain of the marketing discipline be expanded to include exchange of "intangible entities" because of the readily recognized oversimplifications made by classical and neoclassical economic exchange theory? What are the implications of doing so? The concerns discussed in this work are the following:

1. How are value and reward as related to the object of exchange best incorporated into marketing theory so that the error of reification is avoided,
2. How might *quid pro quo* exchange prevent reification and what implications might property rights have regarding quid pro quo exchange, and
3. What are the corresponding implications for theory development arising from an expansion of the marketing discipline over the past twenty years?

REIFICATION

Reification and its implications have recently been discussed in marketing literature. Although the meaning of the term to reify can be ambiguous depending on whether one is referring to the philosophy of science meaning or to the "Marxist" interpretation of reification put forth by Monieson. The Marxist view of *reification* is to make human social activity "a thing "while reducing human actions to fixed or immutable" commodity or "products" useful for exchange. Levin reviews the two types of reification and concludes that there is not a significant distinction between stating that reification is "to make or treat as real" or "to make or treat as a thing," the arguments of Monieson notwithstanding. Reification is defined herein to be the act of assigning qualities to abstract concepts, which are intangible, commonly associated with tangible entities that exist independently of human perception and consciousness.

Implications of Reification

Why is reification a concern for marketing, but perhaps less so for other sciences? Natural science includes many concepts such as quarks, black holes, and gravitation that can not be directly apprehended by our senses as a tangible object, yet are commonly taken as being "real," consistent with scientific realism. This acceptance that un-observables can be real is the result of rejecting absolute Humean skepticism. Humean skepticism leads one to deny the existence of abstract ideas while requiring empirical perceptual observation in order to state a knowledge claim, because sensory perception and one's reasoning or intellect are not separate.

Yet neither is sensory perception and reasoning totally independent, as an idealist who adheres to Kant or Descartes would claim. Rather, human cognitive intellect depends initially on sense perception to begin the process of reasoning; but then our ideas are what give meaning to these perceptions. That is, our ideas are that by which we perceive and understand the real external world in which we live; our ideas are not that which we perceive. Furthermore, new abstract ideas or meanings are derived from combinations of existing ideas so that the growth of human reasoning is not restricted to sensory experience contra Hume. Hence, newly formed ideas or meanings, which may be traced back to original sensory perceptions, are empirically non-observable or intangible.

The proposition is made that since natural sciences have developed a precise means of sensory perceptual measurement and description that is generally accepted (e.g., length, time, mass, energy, temperature, volts, amperes, capacitance, inductance, inertia, and the corresponding derivatives of combinations thereof), then even though an idea or construct is intangible, one can make predictions of phenomena to support the veracity of the idea or construct using measurement and descriptive techniques that are inter-subjectively certifiable.

Consequently, intangibles in the natural sciences are often judged to be "real" even though in a strict sense one might still claim that an idea or construct, for example a black hole, is an intangible treated as though it has physical properties such as the ability to prevent the escape of light photons because of an extreme gravitational field. Yet, black holes are treated as "thing like" because of inter-subjectively observed external phenomena consistent with theory.

Ideas, which give meaning to intangible social exchange constructs, within the marketing discipline have yet to be systematically put forth based on commonly accepted and inter-subjectively verifiable means of perceptual measurement or description. Compelling reasons to consider social exchange marketing constructs as "thing like" and something that can be exchanged are lacking because of an inadequate foundation of apprehensions that relates these constructs to the real world.

Conceptualizing, abstract thought, and our intellect are ultimately dependent on our ability empirically to detect, measure, and describe real-world tangible phenomena related to "social exchange." Hence, reification within marketing, and in general, is not only a conceptual error, but it is also a problem of inadequate or inconsistent perceptual measurement and description. Reification arises conceptually when distinctions between ideas formed in conjunction with observation and ideas formed solely from combinations of other ideas are not recognized.

The contention is made that empirical observation provides a restraint on rationalistically based reasoning that prevents entry into a Platonic world of forms and ideas where only ideas are immutable and hence be true reality. Reification edges science, and philosophy in general, ever closer to the implication of a rationalistic basis of philosophy of science that has little, if any, distinction from the sophist Thrasymachus' conception of right and wrong as stated to Socrates in their discussion recorded in *The Republic of Plato*. Thrasymachus claimed that justice or "right" is the interest of the stronger.

Social exchange marketing concepts might too be accepted as "thing like," as are some abstract constructs in the natural science, and thus be less burdened by the charge of reification, if a well-accepted inter-subjectively certifiable means of measuring or describing intangibles related to exchange in social relationships is devised.

Recent techniques such as structural equation modeling show initial promise in relating intangible abstract concepts together in a systematic fashion, but even though this particular technique and the various derivatives such LISREL or EQS are often referred to as "confirmatory," structural models still suffer an indeterminacy. It is possible for numerous recursive models equally to reconstruct a given covariance matrix, and even though non-recursive models may be identifiable, it may be the case that the solutions are based on only a local identifiability and not a global identifiability.

Furthermore, structural models depend on exogenous observable variables (i.e., sensory perception or empirical observation of tangible entities) to assist in deriving meanings of unobservable constructs. Thus, sensory perception of tangible entities used to measure or describe phenomena is necessary, but insufficient, for deriving even when using structural equation-modeling techniques. Only ideas give to apprehensions of tangibles, but without some type of empirical observation there is nothing to which meaning is to be given. This is a critical point because it states that our cognitive mind or intellectual consciousness is a *tabula rasa* prior to sensory perception, and it is only as a result of perception that we have the ability to begin the process of inductive conceptualization and form abstract constructs that become the basis of a systematically related set of theories.

Comments on Intangibles

Introducing intangibles into the marketing discipline as being "something" that can be exchanged leaves one with the challenge of determining what has been or will be exchanged because of our presently imprecise and unreliable ability empirically to observe, describe, or measure human exchange behaviour related to "intangible entities." This unreliability limits our ability systematically to conceptualize social science constructs with an acceptable amount of ambiguity, subject to fallibility, and prohibits an increasing veracity of these constructs that might give reason to treat "intangible entity" constructs as "thing-like." The implications of the lack of a systematic conceptualization will be discussed as it relates to reification, validity, and value.

Reification and Intangibles

Exchange of values, symbols, or utility in a non-economic sense have seemingly been made part of the broadened domain of the marketing discipline. Social marketing is proposed to consist of symbolic exchanges alone or symbolic exchanges in addition to economic exchanges. Symbolic exchange is "the mutual transfer of psychological, social, or *other intangible* entities between two or more parties."

Does social exchange include the exchange of such intangibles as feelings and emotions? Such alleged exchange cannot include the feelings, affect, emotions, or bodily sensations involved in social acts, for they are private apprehensions that can be directly apprehended by one person only and not by more than one person. Consequently, private and subjective apprehensions cannot be exchanged.

Perhaps publicly apprehended words, symbols, or gestures that refer to abstract concepts such as "intangible entities" involved with behavioural acts of symbolic exchange are in marketing's domain. An "intangible entity" that can be referenced by words or gestures cannot be transferred or exchanged because "intangible entities" or ideas *per se* can not be exchanged; however, publicly perceived tangible words and gestures are instrumental signals referring to ideas, and these instrumental signs can be exchanged. Words and gestures, acting as a signal for the "object" of an idea in one person's mind, are communicated to another who, in turn, uses those words or gestures to generate the same "object" of thought in his own consciousness.

Words or gestures used in everyday activity as instrumental signs that allow our ideas to change, add, or reduce meanings of the "object" of thought within the recipient. Should this mean that any conversation or written communication that includes the exchange of words or gestures that alters another's meanings associated with whatever is the object of cognitive thought are now in the domain of the marketing discipline? If so, then all persuasive, informational, instructive, and explanatory communication becomes part of the domain of marketing. This would place nearly unlimited bounds on the exchange of instrumental signals (i.e., words and gestures), and marketing becomes everything and hence nothing.

Finally, it is an oxymoron to use the words *intangible entity* together, for an *intangible* does not exist and has no properties independent of human cognitive intellect. In contrast, an *entity* exists independently and not relative to anything else, and not only exists independently of human intellect, but also independently of human perception. Hence, "intangible entities" cannot be exchanged because such a description is a contradiction in terms.

Validity and Reductionism

Isolating "cause" and "effect" between constructs proposed to explain exchange behaviour is difficult. Such isolation is necessary, but insufficient, in order to increase the veracity of the claim of economic necessity, which allows one to discount the possibility of a spurious relationship between independent and dependent variables of interest. Convergent and divergent validity assessment of abstract constructs used to justify a claim of isolated cause and effect with respect to exchange of "intangible entities" is susceptible to inconsistent and unreliable operationalizations, increasing the difficulty to certify inter-subjectively the association of observations with predictions or explanations.

Recognition of such difficulty is not to take the stance of a logical positivist and claim that if empirical measurement of an object is impossible, then the object is either nonexistent or merely an opinion. A logical positivist assigns no meaning to abstract concepts when abstractions cannot be empirically described via correspondence to empirical observations. Nor is this concern for valid operationalization and inter-subjective certifiability based on logical empiricism, which allows for abstract concepts but establishes "linkages" between abstract constructs and tangible observables with less rigour than logical positivism.

Rather, the genesis of the concern for difficulty in operationalizing constructs is based in scientific realism while recognizing the benefits of relating abstract constructs to tangible apprehensions whenever possible, because to do otherwise needlessly and dangerously separates intellectual reasoning from external reality. That is, there is a needless separation between private and public apprehensions whenever empirical observation is possible but not performed.

Reliance solely on rationally based arguments that overemphasize relationships between intangible abstract concepts while ignoring behaviour related to tangible objects or real-world phenomena leads toward Hegelian-like implications that should give pause for consideration by any person familiar with the consequences of similar past reasoning processes.

The ultimate implication is that the rational is the real and the real is the rational. Thus, anything that can be rationalized can be claimed as Truth (i.e., immutable and incorrigible) or "real" regardless of conditions in the external world. Relating abstract concepts to empirical observation whenever possible acts as a deterrent to the extreme view that only the intellect is real and immutable, whereas sensory apprehensions of an external "reality" are somehow "less real" because of the ever-changing nature of those apprehensions.

Because of the difficulty of systematically relating constructs of exchange of "intangible entities" to empirically observed exchange behaviour, the desire to assign an act of psychological exchange to claimed instances of symbolic exchange may arise. Ferrell and Zey-Ferrell point out the potential psychological reductionism inherent in symbolic exchange of "intangible entities" when they write:

> Basically any behaviour can be explained on an exchange basis by posing that an individual is receiving psychological satisfaction in exchange for money, esteem, compliance, or social approval. Thus even masochistic behaviour may be explained by exchange.

Although this author agrees with Bagozzi rejoinder that Ferrell and ZeyFerrell commit a straw man fallacy by implying Bagozzi explicitly advocated that social relationships are a subset of marketing, the call for exchange of "intangible entities" to be in the domain of marketing allows the inference that anyone can rationalize any social behaviour as an act of exchanging psychological intangibles, and thus such social behaviour becomes part of marketing's domain, Bagozzi rejoinder notwithstanding.

Intangibles and Values

Devising an exchange ratio of values and rewards related to exchange of intangible abstractions is clearly a challenging task. Whether one claims that exchange takes place due to altruism, competition, reciprocity, or maintenance of status, if the "object" of exchange can not ultimately be inter-subjectively described, the claims of justified cause and effect are more suspect of being opinion and not knowledge since all abstract constructs have ultimate foundations in external reality.

Clearly, the task that still confronts proponents of the inclusion of symbolic exchange into marketing's domain is laying out the foundations for inter-subjectively certifiable empirical descriptions necessary to determine the value of an "intangible entity." Ability to describe the value of an "intangible entity" with sufficient and compelling logic will help that intangible become "thing-like" and have the potential to be an "object" of exchange.

Comments on Tangibles

The primary argument put forth herein is that marketing's domain should include *quid pro quo* exchange of tangibles and should not include the exchange of intangibles unless the intangible in question has assumed a "thing-like" property due to a well-grounded relationship with empirical observation.

Quid pro quo exchange involves the mutual transferring of tangible goods or services with accompanying property rights and their corresponding obligations evidenced by either verbal or written contract or promise, or by complicity of one's actions, where such action arises from the expectation of benefit derived from satisfaction of a need or desire. A discussion of validity and values with respect to the tangible nature of an object will be followed by a short discussion of the avoidance of reification when considering tangibles as objects of exchange.

Tangibles and Validity

Quid pro quo exchange allows inter-subjectively certifiable detection and measurement of value and rewards that are central to exchange theory. Such certifiability arises from the fact that tangibles are apprehended using sensory perceptions that are public and not private, because two or more persons can apprehend the same phenomena. Consequently, as a result of public apprehensions, the convergent and discriminate validity of causal relationships can be more readily evaluated. This is demonstrated by the following passage from Adler.

Subjective differences do enter into our perceptions of something that is one and the same common object for two or more people. They are usually not difficult to account for. You perceive the glasses on the table as tinted green, and I say that they look gray to me. You, then, ask me whether I am colour-blind, and I confess that I forgot to mention that I was.

In spite of such subjective differences in perception, the object perceived remains the same individual thing for the different perceivers – the same bottle, the same glasses. The subjective differences, when noted, whether or not explained, would not cause the perceivers to doubt that they were looking at the same perceptual objects."

Consideration of exchange of tangible objects allows for the evaluation of a causal relationship. Correlation between exchange of a tangible object and behaviour can be inter-subjectively certified by observation of publicly apprehend able phenomena and temporal sequentiality can also be determined unlike the case when considering "intangible entities". However, similar to the case of "intangible entity" exchange, establishment of nomic necessity is a daunting task.

Values and Tangibles

An advantage of considering marketing as the study of *quid pro quo* exchange is that contemporaneous utility or value can be measured or described by the price paid or good or service bartered in the *quid pro quo* exchange. The importance of the ability to measure or describe the value of the object of *quid pro quo* exchange is captured by the following passage from Macneil in his discussion of how promise acts as an antecedent to exchange. Promise is defined as "[p]resent communication of a commitment to future engagement in a specified reciprocal measured exchange." Measurement of exchange objects allows for detection of proportionality.

Proportionality within exchange is necessary for a determination of reciprocity. Reciprocity is a cross-cultural phenomena that is profoundly important in support of exchange. Ouchi describes reciprocity as being one of two universally subscribed norms, the other being a disapproval of incest. Thus, the absence of the ability to measure or describe the object of an act of exchange will affect the willingness by individuals or organizations to accept a promise and partake in exchange.

Some might give pause to the inclusion of services as being a tangible good, for it is commonly accepted within the marketing discipline that services are intangible. This is disputed because services are comprised of actions, behaviour, and phenomena that are capable of being sensibly apprehended. Consider professional services. When a lawyer or accountant is hired should their services be considered intangible? Services by lawyers and accountants include tangibles because their services consist of conversations, legal briefs and filings, audit reports, and accounting ledgers, which are clearly perceptible.

Although the ideas and knowledge required to generate such physical evidence are not directly observable and hence an intangible, it is the physical manifestations of these ideas and knowledge that ultimately yield value and are of interest to the exchange participant. Professional services are not sought simply for the sake of a set of intangible knowledge; rather professional services are sought because of the values derived from tangible manifestations that result from that intangible knowledge. Similar reasoning can be applied to services such as transportation, warehousing, pest control, medicine, theater, and any other service that has commonly been associated with services marketing. As a consequence, what has become known as "services marketing" within marketing literature is well within the proposed confines of the marketing discipline.

Value and rewards can also be used to explain exchange of tangibles in a fashion that withstands the criticism of tautology. Emerson writes that rewards have no meaning independent of value. "Reward" is, by definition, a stimulus consequence that increases or maintains behavioural response frequency." In the context of the present work, the "response," or action, corresponding to a "reward," or value, is participation in the behavioural act of exchange of tangibles. *Quid pro quo* allows for detection of value, which leads to the action of interest: the act of exchange.

Emerson further argues that this statement cannot be tested: it is taken to be an axiom. He writes that "we, as social scientists, cannot logically organize our work without some proposition linking value to action." In essence, the very act of exchanging one tangible good or service for another is evidence *per se* that what is received is of value, and contemporaneous relative value can be ascertained by applying transitive analysis across multiple exchange. For example, if A is exchanged for B, and B is exchanged for C, then C is of greater value than A, and so on.

Tangibles and Reification

What conclusions can be reached regarding marketing and reification based on the foregoing discussion? First, when theorizing about the exchange of tangible goods or services, the problem of reification with respect to the object of exchange is necessarily avoided. Second, it is possible for "exchange" of intangible constructs to avoid the criticism of reification and become part of the domain of marketing, provided that such intangible constructs have been judged to be "thing-like" as a result of being derived from a well-established and inter-subjectively certifiable foundation of empirically measured or described tangible phenomena with veracity similar to "thing-like" abstract constructs in the physical and natural sciences. Absence of such a firmly grounded basis for abstract concepts results in the error of reification when making the claim that "intangible entities" can be exchanged between persons.

EXCHANGE AND PROPERTY RIGHTS

A second advantage of limiting marketing's domain to the study of quid pro quo exchange is that such a limitation recognizes the importance of the concept of property rights and obligations. Such recognition is important in making a distinction between economic, social, and political behaviour and institutions. Moe makes a distinction between political and economic institutions in that political institutions, and related political behaviour, exist to mitigate collective action problems and act as a means of coercion and redistribution, whereas economic institutions, and related economic behaviour, exist to facilitate voluntary exchange among autonomous actors within a legal system recognizing property rights. Moe states that the fundamental difference between politics and economics "is that political actors cannot simply engage in market exchange, as economic actors can; they must make decisions under majority rule, which is inherently unstable as a result of the insurmountable transaction problems of striking *durable* contracts." Further, Moe writes that "politics is distinguished by what people in the public sector are voting about: they are voting to determine how public authority will be exercised. Politics is fundamentally about the exercise of public authority and the struggle to gain control over it."

Similarly, Dixon recognizes a distinction between social and economic paradigms and argues that the principles developed in the social science of marketing having originated within an economic paradigm cannot necessarily be applicable within a wider social behavioural paradigm. Economic systems are typically taken as a given state of nature that operates within implicit constraints established by more encompassing social systems. Dixon describes economic systems as that which supports acts of buying and selling for private gain, and social systems as the fabric of society, which, in turn, encompasses economic systems.

Economic systems are used to facilitate the pursuit of private goals such as profit-making whereas social systems are used to facilitate public objectives of promoting the common good. Recall that *quid pro quo* exchange is defined to be exchange that involves the mutual transferring of tangible goods/services having property rights and the transfer of their corresponding obligations evidenced by either verbal or written contract or promise, or by complicity via one's actions, where such transfer arises because of the expectation of benefit derived from a satisfaction of a need or desire. What benefits accrue to persons as a result of recognizing property rights, and why are such rights helpful for delineating marketing from other disciplines? Persons having private property rights are understood to have the following:

1. Exclusive use of the property including the ability to alter, change, or adapt their property as they see fit;
2. Claims to any resulting benefits derived from the property; and
3. The ability to transfer the rights of ownership of the property to another party.

The benefit to marketing resulting from the explicit recognition of property rights is that a framework is established that mitigates the potential misapplication of marketing concepts, originally derived within an economic paradigm, to instances of behaviour that can be more fully explained or predicted using a social or political paradigm.

Exchange of Tangibles

Each exchange party mutually relinquishes rights and accepts a corresponding obligation to the other parties in *quid pro quo* exchange. These obligations are helpful to describe and predict behaviour of persons engaging in exchange. Demsetz argues that property rights are important because they help a man form those expectations which he can reasonably hold in his dealings with others. These expectations find expression in the laws, customs, and mores of a society. An owner of property rights possesses the consent of fellowmen to allow him to act in particular ways. An owner expects the community to prevent others from interfering with his actions, provided that these actions are not prohibited in the specifications of his rights . . . property rights specify how persons may be benefited and harmed, and, therefore, who must pay whom to modify the actions taken by persons.

Property rights also provide incentives to internalize externalities, which are the costs and benefits associated with social interdependencies. Property rights arise when the benefits of internalization exceed the costs of externalities. What this internalization does is to make relevant to a particular exchange information that was previously considered irrelevant because the incremental cost of obtaining and evaluating such information was deemed too great. Such additional information is an important factor of influence on exchange behaviour, as a willingness to internalize an externality is synonymous with a willingness to assume risk for the possibility of a future reward. Property rights are unquestionably a key assumption of economic exchange states that:

Implicit in all economic analysis of hierarchal control, however, is a key assumption: that the designers have secure property rights. In entering into exchanges with others, some of which lead to mutual agreements about structure, they act in the knowledge that they have legal ownership of their property and its proceeds and that these cannot simply be seized by others without compensation and in violation of the law. The institution of legal property rights thus provides the foundation for the kinds of voluntary exchanges that give rise to economic organization. Without guaranteed property rights, people would approach their exchanges and agreements very differently. And they would create very different organizations as a result.

The "different organizations" referred to are political organizations in contrast to economic organizations. The absence of property rights characteristic of political and/or social exchange introduces uncertainty regarding who has claim to a given object. Such uncertainty leads to *ad hoc* means of interactions between persons. *Ad hoc* behaviour and expectations in exchange complicates progress in marketing theory's ability to explain and predict exchange behaviour and a person's ability to confidently engage in exchange. Thus, recognition of property rights, in addition to being useful for marketing theory, is clearly vital to the long-term vitality of any society, as the existence of such rights reduces uncertainty and enhances confidence in expectations of future behaviour by others. The recent collapse of communism in Eastern Europe and the Soviet Union attests to this proposition.

Do we extend property rights to intangible concepts as well as tangible objects? For example, are not properties rights such as patents and copyrights extended to intangible ideas or the intangible expertise of professionals that provide services? Property rights are not extended to intangibles and neither of these or similar proposed examples suffice as such. What can and cannot be patented is discussed by Smith et al. where they write:

Thus, naturally occurring substances are not patentable as the invention must be made or modified by humans. For example, the discovery of an existing bacteria with useful properties is not patentable, whereas the manufacture of a human-made, genetically engineered bacterium is patentable. *See Diamond, Commissioner of Patents and Trademarks v. Chakrabarty*. By the same token, laws of nature, principles, systems of book-keeping, fundamental truths, methods of calculation, and ideas are not patentable. Accordingly, Einstein could not patent his law E = mc2, nor could Newton have patented the law of gravity. *Funk Brothers Seed Co. v. Kalo Inoculant Co.*, 333 U.S. 127, 130. Similarly, regarding copyrights Smith et al. write:

Copyright is a form of protection provided by Federal law to authors of original works . . . including literary works, musical works, dramatic works, pantomimes, choreographic works, pictorial, graphic and sculptural works, motion picture and other audiovisual works, and sound recordings. This listing is illustrative and not exhaustive as the Act extends copyright protection to "original works of authorship in any tangible medium of expression, now known or later developed."

For trademarks to be assigned, property rights such as copy right protection, an intangible idea must be manifested as a tangible item (i.e., a visible trademark) that can be apprehended. Trade marks that extended legal protection are merely symbols that may represent or refer to particular ideas. An intangible idea per se is not granted a copyright; only its symbol is granted protection. Similarly, property rights are not extended to expertise *per se*, but only to tangible manifestation of such expertise. For example, property rights may be granted to an engineering design that has been detailed on paper or in computer files, or to a manual that gives detailed instructions for a particular set of procedures.

Property rights may also be extended to an author who expresses ideas on a piece of paper or in a computer file, but again such manifestations are symbolic and refer to the expertise of providers of services or the ideas of an author. Once property rights are granted to these tangible manifestations, then the owners of such property rights may reasonably assume expected behaviour from those who are interested in exchange that involves such property. Allowing the assignment of property rights to an intangible idea having no apprehensible manifestations acting as a signal for that idea only will lead to endless disputes and uncertainty, as either side to a controversy over property rights can claim ownership. Societies would be left with no means to consider the merits of the claims of the competing parties.

Clearly problems related to expectations of behaviour by others arise when considering "social exchange" of intangibles between persons to derive systematic sets of behavioural theories. Can persons internalize informational externalities of "social exchange" and place a value or utility on such information? Can reasonable behavioural expectations be formed prior to an exchange of "intangible entities" if there exist no norms similar to property rights that one can assume to hold with an acceptable level of confidence? These questions can be addressed within a marketing discipline whose domain is limited to *quid pro quo* exchange. The answer to these questions is much less clear when considering "social" exchange.

MARKETING DISCIPLINE AND EXCHANGE THEORY DERIVATION

An expanded domain of the marketing discipline without bounds on its stated subject matter is consistent with the falsification arguments for theory testing made by Calder et al.. Calder et al. advocate a dichotomy between what they refer to as effects research and what is referred to as theoretical research. Effects research has the aim of generalizing statistical results predicted by a theory, whereas theoretical research has the aim of attempting to refute hypotheses generated by a theory. Lynch states that the dichotomy is not necessarily a black-and-white distinction, but that there is a relationship between construct and external validity that bridges together the two proposed means of research.

Calder et al. dispute this by arguing that one can deductively assess (trait) construct validity using techniques such as LISREL without assessing external validity, but that evaluating construct validity using solely empirical measures can be misleading. Lynch, however, also makes the valid point that nomological construct validity, which is inductively assessed, cannot be established independent of external validity.

The crux of evaluating validity becomes how one can establish nomic necessity to increase the veracity of a cause and effect relationship between two variables of interest. Nomic necessity eliminates the potential of spurious causational relations between variables of interest. Lynch suggests incorporating intuitively derived blocking variables that are predicted to have no significant effects on the dependent variable. If the main effects of the theory are significant while interaction effects with a theory's variables and the blocking variables are non-significant, then a stronger case for nomic necessity and external validity can be made.

Calder et al suggest that an infinite number of potential blocking variables exist (a point well taken) and instead advocate the use of homogenous test samples free of variation on variables not of theoretical interest. This suggestion is made because a rigorous theoretical test of a universally applicable proposition within a theory does not have as a purpose to generalize statistical results, but instead a theoretical test is concerned with whether or not a theory's proposition can withstand refutation in particular instances. The key assumptions are that all variables not part of the theory being explicitly tested are free of significant variation in order to establish a rigorous claim of nomic necessity, and that the particular homogenous sample chosen provides a rigorous test of a theory.

A concern with the recommendations of Calder et al is that a severing of external and construct validity severs a theory's predictions from the external world by not speculating on potential bounds of a theory's application. This is especially problematic for working and midrange theories. Rationally based arguments can be established independently of empirical observations of a theory's correspondence with real-world phenomena. A retreat toward rationalistic supported theory can occur with less concern for how well the predictions of the theory correspond with various examples of populations that are homogenous on different variables that are not of direct theoretical interest. Lynch recommendations seem reasonable in that correspondence to external reality is considered when assessing validity.

Theoretical Research and Social Marketing

Bagozzi suggests that marketing should strive to answer three questions while not providing nor speculating on constraints of applicability to tentative answers. His stating of these questions is consistent with the premise of theoretical research. These questions are

1. Why do people and organizations engage in exchange relationships?
2. How are exchanges created, resolved, or avoided?
3. How can, or should, exchanges be created, resolved, or avoided?

As previously stated, a critical assumption made by Calder et al. in their defence of theoretical falsifications-based consumer marketing research practices to test "consumer behaviour" theory is that a theory has universal application; so a theory can be rejected if its hypotheses are falsified by any "consumer" subgroup, particularly a homogenous subgroup that provides the most rigorous testing of a proposed theory. The question must then be posed:

Whether theories are better developed by assuming that they apply to a population in general, or by specifically and rigorously defining the theory's bounds of application? This issue was addressed by Cronbach indirectly in his consideration of how to account for interaction effects when testing a theory. Cronbach concluded that because of the potential for an infinite number of interactions among variables researchers are better served by explicitly stating the nature and time duration of applicability for the theoretically hypothesized relationships among variables. This advice is as valid today as it was when originally given.

Marketing Theory Separate from its Subject

Bagozzi disclaims Bartels' concern that marketing should be specific functions that may have general applicability. Rather, Bagozzi calls for marketing to be "a general function of universal applicability. It is the discipline of exchange behaviour, and it deals with problems related to the behaviour." In further work, Bagozzi argues that the scope and subject matter of marketing is independent of its philosophical and theoretical base. This conclusion is then used to dismiss the criticism of "marketing hegemony" over other social sciences by those who disagree with the broadened concept that .social exchanges" be included in the marketing discipline. Bagozzi writes that the marketing discipline is in the process of a Kuhnian "scientific revolution" with the concurrent conflicts, debates, power struggles, and the like, much like other disciplines have experienced. Bagozzi states:

Just as each of these scientific disciplines has carved out its own identity and continues to construct its theoretical and conceptual base, so too must marketing shape its own destiny. To restrict the subject matter of marketing to "economic" or "commercial" exchanges rather than the universal phenomena of exchange would be like constraining physics to explore the material structure of metals rather than the entire world of physical reality.

The implication of this statement should not be taken to be that physicists should freely explore chemical reactions, biological growth, heat transfer phenomena, or physical reality in a non-directed fashion. Rather, the implication should be that physicists may attempt to apply theories of physics to problems that may commonly arise in other disciplines in order to provide further types of scientific explanations and theory development (i.e., a specific set of concepts that may have general applicability). Proponents of the idea that a discipline contains theory and subject matter that are separate and distinct sometimes refer to the work of Popper who wrote:

> But subject matter, or kinds of things, do not, I hold, constitute a basis for distinguishing disciplines. Disciplines are distinguished partly for historical reasons and reasons of administrative convenience (such as the organization of teaching and of appointments), and partly because the theories which we construct to solve our problems have a tendency to grow into unified systems. But all this classification and distinction is a comparatively unimportant and superficial affair. We are not students of some subject matter but students of problems. And problems may cut right across the borders of any subject matter.

Problems do cut across borders of subject matter. For instance, some areas of problems that marketing is concerned with are the development, manufacturing, distribution, promotion, pricing, and selection of what products and/or services a firm or individual can offer to the market, and how best to persuade people to engage in an exchange act. Each of these are legitimate subject matters in their own right. But, in order for problems to be studied and understood, a developed set of accepted theories and axioms related to various segregated subject matters is typically brought to bear.

Perhaps separation of disciplines based on subject matter is merely for "administrative convenience" to maintain efficiency; however, without such disciplinary distinctions each new problem would have to be initially approached via the most fundamental of known axioms, and efforts would be required to identify what, if any, commonalities exist between the most basic theories and fundamental axioms that could be used to investigate the problem at hand. This is an impractical, inefficient, and time-consuming method for advancing our ability to study and understand problems, because it would require beginning each search for new knowledge with the most primitive accepted axioms known.

Maintaining distinctions between disciplines economizes on the search for suitable midrange and working theories that may be useful for explaining phenomena of interest. Maintaining a relationship between disciplines and subject matter still allows the development of new theory and the possibility that additional subject matter may eventually enter the domain of a discipline; however, prudence counsels that additional subject matter not be incorporated into an accepted discipline's domain until sufficient evidence and justification has been made relating the new subject matter to a discipline's theory base that withstands the rational and empirical refutation attempts of critics.

It does not appear to be *an ad hominem* argument, as Bagozzi claims, to question whether the theories commonly accepted in the marketing discipline are applicable to particular types of human exchange behaviour phenomena that lie within defined constraints or limitations, particularly if such theories are working or midrange theories. Perhaps, as Bagozzi advocates, a general theory will eventually be derived that is universal across disciplines in explaining human exchange behaviour, but for now marketing scholars search for midrange and working theories that have limitations in explaining exchange behaviour phenomena.

Until we do have a universal theory, theoreticians are well advised to follow the advice of Cronbach in order to avoid a "hall of mirrors" that arises when interaction effects among variables are allowed to occur within a theory. Proponents of midrange and working theories should make explicit the assumptions, contingency variables, and applicable boundaries of their subject matter.

The call to place limits on exchange behaviour that is to be considered in the domain of the marketing discipline is not merely a disagreement over semantics. If we do not have a well-grounded understanding of the different constructs being measured and the causal or co-relational relationships between these constructs and background variables, then how can the assumption be made that any type of generalization beyond the actually sampled subjects exists, particularly if one desires to generalize across populations? Lynch makes a most poignant statement when he writes:

> A view that is often expressed is that internal and construct validity are important in theoretical research, while external validity is important in applied work. This argument is disputed because *it ignores the link between external validity and construct validity*. The need for a valid model of the behaviour being studied, an issue of construct validity, is just as pressing in applied experiments as it is in theoretical research.

With the advent of macro-marketing and consumer behaviour in the last two decades it is even more incumbent on marketing theoreticians to delineate clearly the accepted boundaries of the marketing discipline. Such a delineation is necessary for marketing fully to assume and maintain the position of.

Deductive Logic

Disclaiming the importance of distinctions in disciplinary subject matter has the appearance of a reliance on deductive reasoning using "universal" laws, while giving insufficient attention to the formation of working theories originally derived via inductive logic after observation of phenomena or subject matter of interest. Relying solely on deductively based reasoning to define "knowledge" leads to accepting the K-K thesis, which means that in addition to justifying claims of "knowledge" one must also justify the justification. It is plainly evident that one can readily slip into arguments of infinite regress with no apparent end except an appeal to first principles. If a "universal" theory is inductively derived and what "universal" theory can be anything but inductively derived, since it is impossible for one to consider all potentially relevant empirical information gathered by apprehensions of the subject matter of interest to make a deductive conclusion with general applicability — how can one say that "universal" theory and subject matter are independent? The same can be said for midrange and working theories.

It is this very relationship between a distinct set of subject matter, derived from empirical observation, and theory that is a significant advantage of knowledge (i.e., justified true belief). This relationship between a theory and a set of subject matter allows for one to "transform" what were once only private abstract ideas into public apprehensions as the object of the ideas contained within the theory can now be simultaneously experienced by more than one person via some correspondence with observed external phenomena.

Finally, marketing scholars' dismissal of anything other than deductive logic as a means of justifying a scientific theory is suspect because nomological construct validity and the formation of fundamental axioms are by nature accepted or disputed by inductive logic. Fallibalism accepts that theories can not be "proven;" theories can only fail to be disproved, and when numerous and rigorous attempts to disprove a theory have failed in a progression over time, then external validity evolves. Yet, this very process is also inductive in nature. We cannot have our cake and eat it too. Either marketing theoreticians should recognize the usefulness of inductive logic in the process of acceptance of theories as approximating reality, or recognize that any conclusions reached that extend beyond any actual study sample be considered nonsensical.

Criticisms of Exchange Theory

Exchange theory has not been without its critics within marketing. The absence of fraud and duress from exchange theory has been claimed to be a weakness. More recently, Houston and Gassenheimer attempt to incorporate such behaviour into marketing exchange theory by introducing a "social distance" continuum that generalizes reciprocity (e.g., gift giving) at one end and negative reciprocity (e.g., bribery) at the other end, with balanced reciprocity (e.g., buying and selling in a supermarket) lying between the two extremes of the continuum. However, it is not clear why altruistic gift giving and duress should be considered exchange within a marketing context, for it is difficult to discern what rewards and value have been reallocated between parties under such conditions and what mutual rights and obligations have been assumed.

Typically, when duress is used as an example of marketing exchange, the withholding of a negative consequence in return for something of value is classified as a "reward," for example, coercive blackmail to obtain a desired good, such as money, in exchange for the disavowal to do harm. It is not apparent how such withholding of negative consequences can increase or maintain responses that are freely enacted. Friedman describes how large numbers of individuals can best coordinate behaviour amongst themselves "through voluntary cooperation [that] rests on the elementary — yet frequently denied -proposition that both parties to an economic transaction benefit from it, provided the transaction is bilaterally voluntary and informed." Bilaterally voluntary means for coordinating behaviour are more effective than coerced means, and marketing will find a richer body of exchange behaviour to study when considering voluntary exchange.

The suggestion that coerced exchange by duress or blackmail is only different from freely chosen exchange in some magnitude or degree of a descriptive variable has yet to be convincingly demonstrated by advocates of the idea. If exchange takes place under conditions of blackmail or duress it is because of the presence of some variables that is are not present in freely chosen exchange, thus fundamentally altering the context of the exchange in such a fashion as to make it inconsistent with the use of values and rewards as a means to increase response frequency.

Will the exchange of a hostage in return for a ransom payment increase the frequency of ransom payments under conditions of free choice? It is suggested the answer is no. Rather duress and altruistic gift giving might be better accommodated within a legal, psychological, social, or political paradigm in lieu of a marketing paradigm. Altruistic gift giving might possibly be considered marketing exchange if the act of giving is in return for past actions by others or expected future actions. However, altruism is taken to be behaviour, as defined by Macneil, "carried out to benefit another without anticipation of rewards from external sources." In this case, no exchange takes place and altruistic behaviour should not be considered part of the domain of the marketing discipline.

Reciprocal gift giving fits into the proposed domain of marketing. Reciprocal gift giving occurs across a small social distance and economic *quid pro quo* exchanges can occur across moderate social distance when the desires or needs of both parties can be mutually satisfied. Houston and Gassenheimer point out that exchange can occur even across great social distance, but the exchange may not be stable over time because an aggrieved party may attempt to alter the circumstances that allow for fraud or extortionist-like behaviour by the other party.

Houston and Gassenheimer are correct to recommend that marketing theory take into account the time dynamic nature of exchange utility, value, or potency of assortments that might be used to explain why certain exchange behaviours may be possible in the short term, or even long term if contractually obligated, but that eventually exchange-related behaviour may be modified to such a point that the negative utility or potency of such behaviour makes exchange no longer viable. This is similar to how social exchange theory emphasizes the longitudinal nature of exchange relationships, but it is the dynamic value of the tangibles being exchanged rather than the dynamic nature of social relationships that should be the primary focus of marketing.

This work has suggested two reasons that the domain of the marketing discipline should be limited to *quid pro quo* exchange. First, such limitation allows for more precise measurement of values and rewards while avoiding the error of reification. Second, such limitation allows for the use of private property concepts as a means to explain orderly and durable expectations in societal and individual behaviour. A richly evolving framework presently exists in evolutionary economic and political literature that has not been fully integrated into current marketing literature. Although many assumptions of traditional neoclassical economic theory have been found to be inadequate, abandonment of present evolutionary economic thought, which relaxes traditional neoclassical economic assumptions, will be to marketing's disadvantage.

In comparison, including social exchange in the development of marketing theory gives rise to two problems. First, in a more general nature and the more difficult to overcome, social exchange proposes that intangible concepts be treated as tangible objects in acts of exchange without establishing the foundations for why such intangibles should be judged "thing-like" and thus commits the error of reification. Second, social exchange proponents have yet to relate systematically the exchange of intangibles to the concepts of values and rewards in such a fashion that addresses the criticism of psychological reductionism. The second weakness should not preclude social exchange from becoming a part of the domain of the marketing discipline; however, advocates of social exchange must overcome the criticism of psychological reductionism.

With regard to theory development within a discipline, in a somewhat ironic sense, the ability of a discipline's set of theories to grow in its ability to explain phenomena may be better suited by limiting the domain of the discipline. The recommendations of Lynch to consider variables, via an inductive process, not presently in a discipline's set of theories to act as blocking variables gives researchers a means to consider whether or not those additional variables should or should not be included within those theories. It has been also argued that when problems are investigated, the most economical means to conserve time and effort is to segregate disciplines to avoid the necessity of reverting to the most fundamental of known axioms, especially when considering working or midrange theories. Finally, the case has been made that theory assessment must not be limited to deductively based universal theory testing, but also must include an inductive process that gradually confirms nomological construct and external validity.

Future Paths

One productive avenue to pursue the nature of exchange further is the concepts contained in the political-economic paradigm and transaction cost analysis (TCA) as primarily developed by Williamson. The political-economic paradigm explicitly recognizes that transactions and exchanges between organizations (although its concepts are not necessarily limited to inter-organizational exchange) involve both political and economic factors. A common central theme of TCA in both economics and law is the cost of information necessary to conduct an exchange while protecting one's assets against opportunistic behaviour. Similar reasoning has also been applied to law and societal relationships by Posner. A major underlying premise is that the cost of obtaining information to a potential buyer and/or seller regarding exchange, the amount or location of information dispersal, and the certainty with which one can expect the performance of future promised behaviour have a significant influence on exchange behaviour. This is very similar to the arguments put forth in the seminal work by Arrow and is an argument well worth investigation.

To help clarify the preceding philosophical arguments, the following questions and answers between the editor and author are presented.

Question: It seems that we in the marketing discipline think of many intangibles as being property and being the source of property rights. Where do the "Care Bears" fit into your proposed bounds of the marketing discipline?

Answer: When one asks where do "Care Bears" fit into the proposed limited marketing domain, one should make a distinction between the idea of "Care Bears" and the actual stuffed animals, cartoon characters, promotional displays, and the like. Obviously, the stuffed animals, characters, and the like would be considered tangibles and any exchange that includes these would clearly fit into the proposed marketing domain. A distinction is called for between the physical manifestations of "Care Bears," which act as signals for the idea of "Care Bears," and the idea of "Care Bears" per se. Ideas are subjective and not public where more than one person can apprehend them.

The premise is that ideas require public and objective instrumental signals that refer to the "object" of the idea before copyrights or trademarks are given (note the *Funk Brothers Seed Co. v. Kalo Inoculant Co.* court case cited, which specifically states that ideas are not patentable). Similarly, ideas do not receive copyrights since a tangible medium of expression is required for a copyright to be granted. Only physical manifestation of ideas receive protection. To give copyrights and patents to ideas that have no physical representation or instrumental signal to represent or refer to that idea would be tantamount to giving protection to all ideas, which in effect gives protection to none.

Question: Is *quid pro quo* a necessary requirement in exchange before one should consider the exchange in marketing's domain? How should one classify exchange that takes place in social intercourse?

Answer. *Quid pro quo* is an essential element of what should constitute the domain of the marketing discipline. When considering the requirement of *quid pro quo* from an institutional perspective one can consider three types of interaction between agents of organizations or agents and individuals. These three types of interactions are reciprocity, redistribution, and exchange as originally described by Polyani. Reciprocity coupled with *quid pro quo* is suitable for marketing. Reciprocity without specific *quid pro quo* and corresponding obligations is outside of the recommended domain of marketing. The concept of redistribution is complicated. If there is some sort of "social contract" between governments (or any central authority) and governed such that the governed expect some type of outcome as a result of obligations levied that benefit the common good, then I would concede that such a form of redistribution is suitable for marketing. This concession is contingent on the social contract being implicitly evidenced by behaviour of the actors, and when one of the parties appears to abrogate its portion of the obligation then the other party feels justified in altering its behaviour accordingly. Once pure state (government) oriented coercion occurs and both parties are not free to enter into the exchange relationship, such redistribution under the force of coercion should not be considered in the domain of marketing. Finally, the proposed domain of marketing is in general agreement with Polyani's recommendation that exchange include the *quid pro quo* passing of value involving a contractual relationship.

In answer to the particular question of whether social intercourse should be included in marketing's domain, my preference is that social intercourse not be included. This conclusion arises mostly because of the prevalence of intangibles, poor description of that which is exchanged, and the opportunity of psychological reductionism. Such "social" exchange can avoid reification if the intangible has been judged to be real because of a well-accepted means to describe the "object" of exchange that is both public (i.e., inter-subjectively certifiable) and refutable.

Question: Can one buy an intangible? Consider an escort service of geishas with the accompanying social niceties. Do not the expected intangibles that a buyer comes to expect from a service add to the value of the service and as such then become of importance to scholars of marketing?

Answer. Let us agree to disagree regarding the ability to purchase an intangible. Geishas or escort services may give rise to certain emotions or attitudes that are intangible, but they are not necessarily part of the "exchange." These intangibles are created solely within one of the parties partaking in the exchange. They are private, not public, sensations and as such cannot be exchanged. Emotions and attitudes can be brought to the attention of someone else by the use of words or gestures (instrumental signals) so that the recipient of these signals may use the signals to generate a subject of thought within his or her own consciousness that allows him or her to consider these emotions and attitudes. My contention is that such services are purchased for benefits of personal pleasure derived from physical and tangible manifestations involved in the exchange.

Question: Are not escort services provided by geishas quite refined, which include many tangibles that might take form in a culture? If such tangibles can take a form in culture, is it necessary for explicit *quid pro quo* to exist in order for a marketing exchange to take place?

Answer. Geisha services can be quite refined. And if pleasure is derived from the sight, sound, smell, touch, or from the simple mental contemplation of such refinement, then I would assign the quality of beauty to the geisha in question, but I would not assign an act of exchange. For exchange to take place involving a refined and beautiful "product," *quid pro quo* must be included along with the corresponding obligation and rights. The *quid pro quo* can be either explicit in some type of oral or written contractual form, or it can be implicit as evidenced by the behaviour of the exchange participants. For example, Macneil in his text *The New Social Contract* discusses section 2-207 of the Uniform Commercial Code, which allows for the presence of contract evidenced by one or both parties having partially (or completely) performed their obligations. When a person gives money to a cashier in exchange for a good or service, even in the total absence of a written or spoken agreement, if the party accepting the payment performs the generally accepted behaviour of taking the money, ringing up the register, and placing the good in a sack with an accompanying sales receipt, then a *quid pro quo* exchange has take place that is evidenced by such behaviour.

An implicit contract that is evidenced by behaviour is not subject to psychological reductionism. No prediction of the relative state or change of state of one's thinking is considered when assigning contract to a particular set of behaviours. It is taken as axiomatic that exchange is undertaken to improve the potency of one's assortment and to enhance one's well-being, and that so long as a positive reinforcement or reward is received from an act of exchange, then exchange behaviour is more likely to be repeated. Value or reward and human behaviour cannot be separated. One cannot explain or define value without also accounting for some type of human behaviour.

Question: Is the giving of a tangible gift to a loved one outside of the proposed domain of the marketing discipline?

Answer: A tangible gift to a loved one that is offered altruistically without any expectation of quid pro quo is not a part of the proposed domain of marketing. Hobbes, writing in the Leviathan, has referred to this type of act as "grace" or "free gift" and considers this act to be a unilateral action and not a bilateral action that involves exchange.

Question: If a person receives $20 today to perform a service in the future, has not an exchange taken place in that a promise to perform a future action is exchanged today for a given amount of money? Conversely, if a conditional promise is made that a future service will be rendered given a future payment to be received at the time of performance then has a quid pro quo exchange been made?

Answer: Promise involved as an antecedent to quid pro quo exchange is made tangible by either verbal or written instrumental signals. The intangible promise that gives rise to one having faith or belief in the performance of another's future actions to fulfill some expectation is not exchanged. It is the instrumental signals giving evidence of a promise that are exchanged. Furthermore, promises do not contain value to a recipient and as such are not useful in determining the relative reciprocity or equivalency of an exchange. Promise does have an indirect value in that if the recipient of a promise believes that the promisor will keep his or her word, then future actions will be taken by all involved parties that will improve their relative conditions.

Promise is an antecedent condition of exchange, and until the quid pro quo exchange of tangibles of value occurs the act of exchange has not been fully consummated. Consequently, neither example is technically a complete exchange in the proposed domain for marketing. However, both examples illustrate antecedent conditions in an exchange process that takes place over time. Indeed, all transactions involve factors that take place over time, as there is no such thing as a purely discrete transaction that is "sharp in" and "sharp out" with no external social or political influence.

Again, Macneil discusses in his text The New Social Contract in great detail the nature of discrete and relationally based exchange with the primary distinction being that discrete exchange enhances presentation or the collapsing of future contingencies into the present for consideration by exchange participants, while relational exchange projects the consequences of present actions of exchange participants into the future.

Question: Is exchange under the guise of fraud included in the proposed domain of marketing?

Answer: The point is well taken that if a person is fraudulently deceived in the act of exchange of tangibles involving some type of quid pro quo, then marketing exchange can still take place. What is important to clarify regarding the proposed limitation of marketing's domain is that the expectation of benefit arising as a result of exchange needs to be present. One might expect a certain quid pro quo payment, and consequently enter into an act of marketing exchange, but because of fraud or deceit not receive that which was expected. For instance, a person may pay a certain amount per pound for a certain grade of carbon steel, but the party supplying the steel may deceitfully substitute a lesser grade, thus committing an act of fraud. In such a case, an act of marketing exchange has still taken place in addition to a criminal act. If the fraud entails no receipt of a quid pro quo whatsoever, then no marketing exchange has taken place and only a crime has been committed.

Question: Is the act of bribery that involves an exchange of tangibles in the proposed domain of marketing?

Answer. Even if bribery is entered into voluntarily with the expectation of benefit, then according to the proposed taxonomy to distinguish marketing exchange from other types of exchange, such an act would not be within the proposed domain of marketing exchange. Although it is not explicitly stated that exchange must be legal to be considered marketing exchange, there is an implicit understanding of legality, or at least some type of societal sanctioning, because of the recommendation for recognizing property rights and the corresponding obligations. It would be most difficult for one to find a court willing to protect a person's property rights to payment received in an act of bribery for illicit services or actions rendered. Furthermore, since a contract arises from and is dependent on society because of the norms, customs, and common language of that society, it is reasonable to argue that absent some type of common expectation of bribery being acceptable behaviour then bribery cannot give rise to an enforceable contract and obligation.

Question: Does an exchange have to be legal to be considered in the proposed domain of marketing? For instance, is the purchase of marijuana or a pirated recording outside of the domain?

Answer. These examples of paying money for marijuana or pirated property are not part of the proposed domain of marketing because of the lack of property rights and corresponding obligations. There may be "honour among thieves," but it seems unreasonable to assume that a society will uphold the obligations of one party involved in such a transaction if one party in an exchange feels the other has abrogated their end of the deal. Property rights and the accompanying obligations are important aspects to consider because, as Demsetz eloquently stated, such property rights help a person form expectations about the behaviour of others without which the world would be a much more chaotic or despotic place in which to live. To interpret my use of the word "despotic," one should refer to the Appendix in Hunt text *Modern Marketing Theory. Critical Issues in the Philosophy of Science* in which he refers to the Orwellian implications of a purely rationalistically based sense of truth.

Question: Is not exchange that occurs in which a negative consequence is withheld in return for something of value in the proposed domain of marketing ? For instance, the "fear" appeal is used regularly to sell toothpaste, tires, fire alarms, and so forth. An insurance policy is sold to shield a person from adverse consequences, and one can pay "protection" money in the school yard to avoid harassment from the school bully. Are these not potential exchanges suitable for marketing?

Answer: Toothpaste, tires, fire alarms, and the like do not withhold negative consequences as much as help to prevent them from occurring in the first place. Withholding of negative consequences is more in line with the act of blackmail in which purposeful coercion (i.e., a threat of negative consequence) is used to elicit a particular response. One can freely choose to avoid buying a particular brand of toothpaste, tires, and the like and not see oneself any worse off than one's present condition as a result of doing so. However, in the case of blackmail, a refusal to cooperate will clearly place a person in a condition of being the worse. This reasoning is similar to a Pareto approach of utilitarianism that considers marginal utility of voluntary transactions and states that the superior outcome is one in which at least one party is better off and no parties are worse off.

The example of an insurance policy and the payment of protection money is interesting. There does appear to be a rough analogy, although an appeal is again made to the desirability of a Pareto condition. An argument can be made that one will not be contemporaneously worse off for not having bought an insurance policy (although some may think otherwise); however, one will be the worse for not paying off the local bully and hence be on the receiving end of a knuckle sandwich. One example, insurance, does not include the act of coercion, whereas the other, payoff to the local bully, does include an act of coercion. Consequently, insurance and "protection" money are not equivalent and the purchase of insurance is clearly part of the proposed marketing domain, whereas the purchase of "protection" from the school bully is not.

Question: Does a *quid pro quo* exchange have to be voluntary in order to be in marketing's domain? For instance, buying the service of a dialysis may be voluntary, but if the cost of medical treatment is prohibitive a person may select suicide. In the limit everything is voluntary and any attempt to distinguish voluntary from involuntary action becomes arbitrary.

Answer: One should not be pessimistic about the requirement of voluntary action being in the domain of marketing while involuntary action is not. Surely, in the extreme all actions might be argued to be voluntâry, but if this is so, why make a distinction at all and just simply state that all action is voluntary — period. In general, infinite regress arguments have no validity because there is no initial premise that yields an explanation. Therefore, it is useful for us to make distinctions between voluntary and involuntary acts, the charge of arbitrariness notwithstanding.

How might one make such a distinction? Voluntary acts involve no compulsion from external sources. Compulsion arises when the original cause of an action is external to an actor and the actor does not contribute to the carrying out of the action. Involuntary action also implies action taken through ignorance of the particular circumstances in time and place that give rise to reward and punishment. Voluntary action arises when a particular action has been deliberated on by the actor and determined to satisfy either a need or a want within the actor.

Question: Does a vintner sell taste or something to stimulate the taste buds?

Answer. Yes, in a literal sense, the vintner is selling something to stimulate the taste buds; he is not selling an abstract concept named "taste." A person may drink a wine and find it rich and fruity to the taste and a second person can drink from the same bottle and disappointingly determine the wine to be overly dry and bitter in taste. What we taste in our mouths is a private and subjective apprehension that cannot be apprehended directly by more than one individual. We can talk about the abstract concept of "taste" and determine that wine, in general, does possess an attribute that we commonly refer to as "taste." However, a vintner cannot sell nor exchange this abstract concept with another individual. The vintner can sell or exchange a liquid with certain physical properties that acts as an instrumental signal indicating that one might expect a certain flavour (i.e., dry versus fruity), but the vintner does not sell the idea of taste *per se*.

3

Characteristics of Service Marketing

KNOWLEDGE, INTELLIGENCE AND INTERPERSONAL SKILLS

Understanding people, with all their unique habits and traits, is not an easy process, but it is essential to appreciate people as individuals in order to build a marketing-oriented service organization. Ultimately, any professional service organization is defined by the perceived quality of the product or service that the organization delivers. It is a simple but unequivocal truth that the better the people, the higher the quality of the product/service. The skills, abilities, and personal characteristics of the people in the organization will influence the daily output and continuous success of the professional service company. In essence, people are the lifeblood of any professional service organization.

What makes for "better" people in a professional corporation? Answers to this question are about as common as successful professionals. However, the most focused and pithy answer may be that better professionals in service organizations are the most effective at reducing the anxiety levels of their clients. They enable the client to direct his energies to issues that he can resolve—with the confidence that the professional is working on issues that as a professional *he* is best suited to investigate. In this way the client can focus his energies on his tasks and the consultant concentrates his energies on his tasks. This idea of reducing anxiety is something of a broad generalization, but it does focus the discussion on the ultimate results that the professional delivers—problem solving.

Since the ability to problem solve is fundamentally an activity of people, it seems rational to begin with listing the professional's most critical abilities. The people composing a professional service organization are the basic building blocks that produce the products and deliver the services that the organization markets to sustain itself. An objective and thorough analysis of the people in the organization is at the base of measuring the potential of the organization's output.

The emphasis on phrases like *"Total Quality Management"* in the production areas of business in the 1990s suggests the importance of quality products in the manufacturing processes. In a professional service organization, the "product" (which oftentimes is a service) is a direct result of the people who produce and deliver it. Hence the emphasis on people quality.

The identification of potentially successful marketing-oriented professional personnel begins with a SKAP (Skill, Knowledge, Ability & Personal characteristics) profile of the position. As the meaning of the words in the SKAP acronym can be confusing, they will be briefly defined here. *Skill* is defined as behaviour that is learnable. A certain skill can be improved with instruction. A person's skill to perform certain acts is generally thought to be developed and improved with practice and feedback over time. *Knowledge* is defined as information, concepts, theories, and facts that are acquired either innately or through some form of learning process. Ability is defined as an innate or learned proficiency to perform some function. *Personal characteristics* is defined as the demonstration of competent social interaction behaviours.

A generic SKAP profile of a marketing-oriented professional service person would certainly include the traits of technical knowledge, social competence, professional work experience, education, intelligence, and interpersonal autonomy with a team orientation. Essentially, this means the person should have an education, some work experience, a high degree of intelligence, and the right temperament.

People employed in a professional service organization can be defined and measured according to three basic factors: knowledge, intelligence, and interpersonal skills. This list is not exhaustive, and certainly other useful ways exist to describe individuals in professional service organizations. However, these three factors include a significant range of critical characteristics. These factors can be carefully measured and *combined* to effectively describe a given individual's potential contribution to an organization. The behaviour resulting from the combination of the three factors can be as important as any individual factor.

The overall integration of a person's level of subject matter knowledge, intelligence, and temperament can be used to pragmatically define a professional person. A high degree of subject matter knowledge, when combined with defined areas of intelligence and an optimal temperament, make for a superb professional service person. But what about other combinations of other levels of the factors? For example, are people with average or modest levels of intelligence, but reasonable levels of knowledge and highly disciplined personalities, capable of being successful in a professional service organization? These issues will also be reviewed.

Levels of knowledge can be reviewed, investigated, and double checked for accuracy. Finally, an individual's temperament can be categorized in terms of specific behaviour traits. The next section examines each of these factors in detail.

KNOWLEDGE

The initial source of subject matter knowledge for many professionals is college, possibly including graduate school. The secondary source of professional knowledge is generally work experience. Both of these sources of knowledge will be analysed to determine a reliable way of interpreting the value of each in evaluating a person for a position in a marketing-oriented professional Firm.

Education

Once a person's formal education is completed, it is then frequently followed by some form of board certification or licensing exam, which can require an additional commitment of schoolwork and study. For example, most accountants at the CPA level graduate from college with degrees in business and then work two additional years as auditors for an established public accounting firm while studying for the CPA exam.

Similarly, many actuaries complete degrees in actuarial science, math, or a related field, and then complete a series of exams that lead to the FSA designation. Law school enables its graduates to partake of the task known as the bar exam. Architects generally complete a college degree but are only certified after completing their AIA designation. College graduates in engineering are allowed to use the professional designation of Professional Engineer (PE) after passing a licensing exam. Some designations are a minimum requirement to work professionally in the occupation. For example, a person who graduates from an accredited law school but who fails to pass the state bar exam cannot practice law in that state. Similarly, the person who completes a college degree in accounting cannot advertise himself as a Certified Public Accountant unless he completes the CPA requirements.

Other professional designations, some recognizing expertise in areas like insurance, real estate, computer programming, financial planning and consulting, do not have exact requirements for college degrees but mandate their own list of technical or educational requirements. Critical here is that a college education or a professional designation indicates that a person possesses some minimal level of knowledge in a specified area. The operative word here is *minimal*. Just knowing that a person possesses the education or designation required to perform a professional function may entitle him or her to be considered for the position.

Of their own volition some professional service organizations establish such minimal standards for new employees, while others are required by law to establish such standards. For example, in order for a person to advertise himself as a lawyer he must pass the bar exam in the state in which he or she intends to practice law. Many states now require that a person be licensed to sell life insurance and real estate, which generally requires study and passing an exam.

Other standards are more artificial and are established by the organization that is hiring people. Hiring only personnel who are CPAs or who have completed professional industry certifications when it is not required by the state may increase the likelihood of hiring a capable person, but this criterion can also cause a company to overlook otherwise well-qualified candidates. Professional certification, like intelligence, motivation, and work experience, is best considered as one part of the puzzle that composes the overall person. In general, if not required by state law, it is best not to set minimal standards for any one facet of a person's background. General guidelines are frequently appropriate, to be used as benchmarks and reference points, but firm minimal standards in one area of a person's background can cause the firm to overlook otherwise well-qualified people.

In evaluating recent college graduates for positions in a professional firm emphasis is often placed on performance in school. However, a number of studies have indicated that in general, school performance as measured by grade point average (GPA) has a very low correlation with actual career success. The authors of these studies frequently conclude that academic performance in school is correlated with the desire to do well in school but not with the ability to perform in the business world.

In spite of this "scientific" evidence, many employers insist on only hiring students with higher than average grades. Grades *by themselves* do not indicate ability to perform well in the workplace.

This is an example of the use of an artificial standard that can exclude very capable people from an organization.In all fairness, high grades can be indicative of a person's overall orientation for success or failure, but it is not sufficient to focus exclusively on grades in school as criteria for hiring. The person with higher grades, whose background also includes more activities, like sports, clubs, student government, and an overall record of accomplishment, is probably a more likely candidate to succeed in a professional environment than the person without that overall pattern. Grades are one indication of how well a recent graduate is likely to perform on the job, but they are best used in conjunction with other evaluation criteria as well. Even then, they are only a guideline of how a person performed in the academic environment. Ideally, the person also has some work experience that can be reviewed and analysed.

Work Experience

Evaluating a person's overall work experience is generally a two part process. Initially, a person is reviewed to determine if he or she has the generally appropriate work experience to perform the job functions. An applicant's work history can be analysed by reviewing a resume and asking general questions during an interview. Questions can cover such work topics as:

1. Which tasks were liked best?
2. Which tasks were liked less well?
3. Specific accomplishments and how they were achieved; for example, if working on a "group" project, what were the candidate's specific responsibilities?
4. What was learned from the experience?
5. How were especially difficult problems faced or resolved?
6. Describe some challenges—how were they met?

These and other questions will provide some information about the person's general work habits and stated abilities. They also provide insight into his or her motivational pattern and interpersonal style.

The second part of the process involves determining a person's technical skill. Evaluating the quality of a person's technical work experience can be more difficult, especially when a candidate appears to be very positive for a position because grilling a positive candidate on technical matters may seem offensive to the candidate. This seems to be true because asking pointed, direct, and technical questions of a candidate who has summarized his successful experience can suggest that the explanation of his work background was not fully acceptable. Any such apprehensions on the part of the interviewer are generally invalid. In fact, most qualified candidates will eagerly elaborate on the steps they took to achieve their career successes. They will be especially candid in describing their most recent position.

For example, when reviewing the work experiences of a candidate for a senior management position, a successful candidate may openly admit that he no longer performs the exacting functions of his technical subordinates, but he will eagerly explain how he manages his subordinates from a more macro level. The successful professional manager enjoys describing his methods to an appreciative audience—and he or she will do just that.

Similarly, when interviewing a successful professional services sales manager, the candidate should be open in explaining the background of his achievements. Generally speaking, better sales managers will readily recall their groups' sales accomplishments with specific numbers for the past several measuring periods. Moreover, they will readily supply company documents supporting their stated accomplishments. Sales managers who claim any of the following or make similar excuses for providing the records probably never accomplished their stated sales achievements:

1. The company does not provide those records anymore.
2. My spouse lost them when we moved.
3. The dog ate them.
4. A fire destroyed them.

Professional service personnel directly involved in marketing or sales are very proud of their attained goals. Typically, they carry the numbers indicating their success in their head and they keep written proof of them in a safe location. They can readily cite examples of how, where, and when they overcame obstacles to win development awards or new client engagements.

Technically oriented professional service people should be included on the interviewing team. They are probably the best qualified interviewers when investigating a candidate's level of technical expertise in a given area. Again, the better qualified candidates, be they actuaries, accountants, architects, business consultants, computer programmers, engineers, financial service personnel, lawyers, physicians, or other professional personnel, generally welcome a meaningful technical discussion of their skill level. The questioning process itself indicates to the candidate the level of technical expertise already existing in the firm.

For some positions in a professional service firm, standard or customised tests can be created to better determine a candidate's level of ability. These tools can be used to provide additional screening information about a person's knowledge level or ability to perform certain tasks. These types of tests have been used with computer programmers, actuaries, engineers, and others who are fairly recent school graduates and whose level of expertise is difficult to determine in an interview. These tests are designed to provide an additional level of insight into the candidate's ability to complete certain job functions, and the better qualified candidates will see such tasks as an opportunity to demonstrate their level of ability.

One form of such testing is to request that the candidate bring some samples of his work to the interview. These can be reviewed as part of the interview and the candidate can explain what he did, how he did it, and any corrections he would make in his next assignment. In order to ensure that the material represents the candidate's own work, he can then be asked to perform a similar (but smaller scale) analysis, interpretation, or review of a hypothetical problem as part of the interview. This work-sample analysis will provide the interviewer with some evidence of how the candidate reacts under pressure and is an indication of the candidate's actual level of ability to perform the needed tasks.

In conclusion, it is imperative to fully and candidly evaluate a candidate's work experiences to ensure that he or she possesses the skills needed to perform the job functions. This process can require a fair amount of diplomacy, but it will ultimately lead to better selection of improved candidates. These criteria for evaluating both education and work experience are further discussed in James B. Weitzul *Evaluating Interpersonal Skills in the Job Interview.*

INTELLIGENCE

In many professional service organizations, intelligence is a quality that everyone is perceived to possess in abundance. It is assumed that every professional person is intelligent enough to make a solid contribution to the firm. However, some people are considered to be especially bright, insightful, or capable of making persuasive arguments that by their brilliance can sway others. Conversely, some people are considered "slower" than the rest of the group. These people, although they have other complementary traits that more than compensate for their lack of superior reasoning ability are considered less intellectually able than some others. Even in groups where everyone is considered to possess "superior" reasoning ability, some people are recognized as being at the top, middle, or bottom of that superior group.

With all other factors being equal (generally listed as subject matter knowledge and temperament), greater levels of intelligence are preferred to lower levels. In a professional service organization where the levels of an individual's abilities are directly related to the quality of the product, people with higher levels of reasoning ability can make greater contributions to the organization than those with lower levels of reasoning ability.

Intellectual ability is difficult to define. Volumes have been written on the specific meaning of intelligence, and it is not the purpose here to summarize or interpret the findings reported in those tomes. Rather, intelligence is simply defined here as the ability to analyse, interprets, and synthesizes material as quickly as possible. It is best defined in terms of the faculty to understand and communicate using verbal, numerical, and conceptual abilities.

It is important to measure intelligence when a person is joining a firm because an individual's raw reasoning ability is not going to increase. Like a new sports car, the person will almost never think quicker or operate faster than he does when he starts his career with an organization. Additional experience and specialized training may improve the candidate's skill level in a certain area, but his or her potential to shine intellectually will be limited by his or her reasoning ability.

A person's actual performance will also be influenced by his or her level of technical skill, personality traits, and a host of other factors—and these will be explored-but the ability to accept responsibility for new, different, and atypical issues within the context of the firm's expertise is largely determined by the individual's level of reasoning ability. If the person does not possess sufficient reasoning ability to perform beyond a certain level, this limitation should be addressed. Some candidates may be selected for specialized and limited functions. The intellectual parameters for these functions should be discussed and set. However, generally the greater the mental capacity the individual demonstrates, the greater his or her potential for growth with the organization.

One of the most reliable and valid ways to measure this definition of intelligence is the use of standardized tests. Such tests as the Wondelic, Raven, Stanford-Binet, and WAIS are useful in measuring one or all of these forms of intelligence. The tests can be administered by experienced test examiners. Their various distributors provide technical information on the statistical validity and reliability, scoring instructions, and general population norms for comparison purposes. Some standard objections exist to using such tests. Critics argue that in general intelligence slowly declines after age 35, or that some people in the population may have been disadvantaged in their upbringing and hence may perform on the test below their actual level of ability.

A person can probably raise his or her level of performance on a given test with practice. However, raising a person's performance score is not the same as improving his ability to think. Partially for these and other reasons, the results of intelligence tests should be thought of as a reading on a thermometer. They provide a data point of information about a person's level of reasoning ability at a moment in time. Intelligence testing is not a perfect process, but it is one method to gauge a person's ability to deal with verbal, numerical, and conceptual issues. Below are three major areas of intelligence and the findings that can result from analyzing each one.

Verbal Reasoning

A measure of verbal reasoning is included to provide a measure of the person's level of spoken vocabulary, verbal comprehension, and reading ability. These skills are generally critical in a professional service organization for the ability to communicate using the English language is crucial to success in most positions. Everyday conversation is the most common means of exchanging ideas both in the office and in presenting recommendations to clients.

This measure is also partially used to validate a person's "stated background." For example, if a person indicates that he or she graduated from college with a degree in English and is a frequent reader of novels, biographies, and fiction, but scores poorly on the verbal intelligence questionnaire, then we may question the validity of the person's claims. Conversely, if a candidate readily admits that he has little interest in reading and indeed does poorly on this questionnaire, then it *may* suggest that he needs to read more in order to develop professionally. Reading more will not necessarily raise the person's verbal reasoning ability, but it should increase his vocabulary and communication skills.

Individuals whose area of professional expertise requires strong verbal skills (for example, professional sales personnel) can and usually do perform well on this factor of intelligence. However, simply because a person appears to be intelligent and performs well on this single test, he or she may not actually be "highly intelligent." A person who possesses significant (but primarily only) verbal skills can appear to be highly intelligent in general conversation—or during an interview—and score well on a test for this single factor, but that person may in reality be more limited in the other areas of intelligence, for the ability to speak glibly and with a certain amount of social polish is not necessarily indicative of overall reasoning ability. Further investigation may reveal that the person possesses an overall average amount of reasoning ability. This is especially true in Western culture, where a great emphasis is placed on verbal communication skills. Therefore, it is worthwhile to test for other reasoning abilities as well.

Numerical Reasoning

A measure of numerical reasoning is designed to give a definition of a person's ability to deal with patterns of numbers. Some level of numerical proficiency is important for most professional positions, but it is especially critical for positions in actuarial science, accounting, finance, computer programming, engineering, and architecture. Questionnaires are used to measure a person's overall ability to deal with numbers, regardless of the particular "number-crunching" skills required by the position. A person's performance on such a questionnaire is also used to verify something he or she may have indicated on other materials or in the interview itself. Again, individuals who indicate that they completed degrees in math or accounting are expected to perform well on these tests. Those candidates who make such claims, but who fail to achieve reasonable scores on the tests may be "suspect" in other areas of their stated accomplishments.

The brightest people in an employee group will score well on both the verbal and numerical reasoning tests. The ability to deal with numbers and words is an indication of a broader-based level of general intelligence. In some cases, particularly for positions requiring primarily quantitative skills, a high score on the numerical test and a low score on the verbal test may suggest that the person has a "knack" for numbers but a dislike for reading or issues involving verbal reasoning. Such people are frequently very capable of completing single quantitative tasks, but have some difficulty performing in broader-based functions that require proposal/report writing, general correspondence, and interacting with others in an executive group.

Conceptual Reasoning

A measure of conceptual reasoning is designed to give an in-depth evaluation of a person's overall ability to deal with issues requiring analytical thought processes. Such questionnaires measure a person's ability to understand, analyse, and interpret abstract material. Generally speaking, this intelligence factor is the most comprehensive single measure of overall reasoning ability.

Some tests in this area have been designed to overcome possible disadvantages in education or cultural biases. Such instruments as the Raven Progressive Matrices require people to complete patterns of symbols to determine intelligence. These types of tests do not require any knowledge of the English language or any special training or familiarity with mathematical concepts.

People who score well in this area possess the ability to understand, analyse, and interpret complex data that is presented to them for the first time. They are better equipped to handle issues that are novel, and although they may have limited experience with some issues, they do possess the ability to solve problems. People who score lower in this area have difficulty appreciating new technology or analyzing unfamiliar issues.

Interpreting the practical implications of the scores from the various intelligence tests can be either simple or complex. If a person scores high on all three areas of intelligence, then the interpretation of the person's raw reasoning ability is fairly straightforward. The person probably possesses a superior degree of intelligence. However, frequently a person will score high on one or two of the instruments and low on another. This situation requires greater interpretation and analysis.

A few examples will highlight the importance of defining the person's level of intelligence in the different areas and of integrating the data. Assume that person A is a recent college graduate with a major in accounting. He scores high on the verbal, numerical, and conceptual reasoning tests. He is highly intelligent in all areas tested and he is recommended (from an intellectual point of view) for the position.

Assume that person B also with a college degree in accounting completes the reasoning tests. He scores high (when compared to other college graduates) on a test of numerical ability. He scores average on a test of verbal reasoning and average on a conceptual reasoning test. Generally speaking, high numerical skills are associated with the skills necessary to be an effective entry-level auditor for an accounting firm. In fact, a high score might almost be considered essential. A score in the average range (for college graduates) of verbal reasoning is probably sufficient for an entry-level auditor. Realistically, verbal skills are generally not critical for performing auditing tasks well. Also, average (college graduate) conceptual reasoning skills are generally sufficient to perform such job functions adequately. However, what is the long-term employment horizon for such a person?

Again, person B possesses solid numerical skills but average verbal and conceptual skills. This means that his ability to absorb new knowledge is limited. His inherent ability to understand, analyse, and interpret complex data from an array of new sources is somewhat average. The level of responsibility he reaches in the organization will be in some ways limited by his intellectual abilities. However, his advancement will probably be more strongly influenced by the two other factors in his overall personality: subject matter knowledge and temperament.

Person B may specialize in a fairly limited area of the business and become an expert in a narrowly defined field. In this scenario he will concentrate his energies so strongly on a given topic that he becomes an "expert" in it. This specialized subject matter knowledge may enable him to prosper within a professional firm—in spite of his limited overall intelligence. Second, his advancement may be largely determined by his temperament. If he possesses the interpersonal skills to manage others, lead client projects, and effectively reduce client anxieties, then he can become a successful professional with the accounting firm. However, if he lacks these interpersonal skills or the opportunity to master some specialized area of the business, his professional career may quickly plateau at a defined level. In general, this means that he will be terminated from the firm, or he will simply resign when he realises that he is not going to advance beyond a certain "middle" level in the organization.

A third example can further demonstrate the importance of intelligence testing. Person C—a college graduate and an entry-level professional person in a sales organization—scores very high on a verbal comprehension test and moderately well on numerical reasoning and conceptual questionnaires. The person performs his job duties well and is recognized as a valuable team member. Such a person can probably fulfill the role of sales person well; yet, a person in the vice president of sales position will generally need to score higher on all three areas of reasoning.

It is important to analyse and interpret the entire set of intelligence test scores that a person achieves, and not just the test scores individually. This total interpretation will influence the likely career path that the person develops within the organization. For example, a person with an average degree of reasoning ability can become a vice president of sales and marketing with a professional service organization—but he or she will probably develop an emphasis on sales rather than marketing. Moreover, it is likely that this emphasis will be much more directly oriented toward sales activity than in the areas of designing, planning, or organizing a market strategy.

The primary purpose of testing the intelligence of job candidates is to predict their level of reasoning ability. Intelligence is a critical skill and knowledge of a person's intelligence is important to predicting a person's potential contribution to the firm.

Conversely, it is not always necessary to measure intelligence with testing in the existing group of personnel within an organization. The primary purpose of the testing is to predict future behaviour. If a person has already joined the firm, then his or her ability to reason will be monitored and evaluated by peers and working associates. Generally speaking, people in this group will have developed individual reputations for possessing certain levels of reasoning ability. Their professional peers and working associates will generally be able to gauge from their work the actual ability to comprehend and complete new and difficult assignments.

However, when a person is being considered for a transfer to a new department or for a promotion to a higher position outside his or her immediate department, and where the individual's reasoning abilities are not known, then testing for intelligence and thereby predicting this part of behaviour can be critical. Failing to do this would be similar to not checking references and not verifying (to the extent possible) the person's claims of education or technical competence. Some people have developed to an art form the process of inflating their accomplishments.

These people interact with skill and social finesse that can impress the most experienced interviewers. Other candidates can be humble and even modest about stating their reasoning abilities. Both of these types of candidates (and all others) should be tested for raw reasoning ability. Testing for reasoning ability is the most objective way to ensure that a person possesses the intellectual skill to solve unfamiliar technical problems. Finally, it is possible for a person to have "a bad day" and perform poorly on the tests. At these times the candidate can be retested on a "reliable" alternative form of the original test. However, this is an infrequent occurrence.

What are the possible consequences of not testing a person's reasoning ability in a professional service organization? They can be considerable and may have a long-range impact on the effectiveness of the organization. It is difficult to pinpoint exactly what course a person's career will take based only on the fact that he or she possesses a low level of reasoning ability when compared with others in the organization. However, several patterns have been shown to emerge over time.

These include:

1. Repetitious Behaviour. The person's professional behaviour relies heavily on what he has learned and how he has operated in the past. He does not adapt well to situations requiring flexibility, creativity, or original thinking. He is constantly forcing a square peg into a round hole. He lacks the ability to see the implications of his own limitations and forces old solutions onto new problems. Eventually clients become tired of his traditional, overly simplistic solutions and change companies.
2. Poor Selection. Frequently this person is intimidated by people who do possess more intelligence, and he refuses to hire "bright" people. He denies this is the reason, but a review of his hiring practices will show that he consistently selects people who are intellectually slower than those

   selected by other managers. Moreover, he also tends to select for promotion those subordinates who are most like himself in this regard. They, too, lack the significant reasoning ability required to optimally serve clients.
3. Turnover. Better people who are hired into his work section will sense that he lacks the ability to understand their ideas and they will either transfer to another department or, more likely, will resign from the firm. The people whose level of reasoning ability is superior to his will
   a. Soon sense the futility of trying to deal with him,
   b. Assume that management is aware of his limitations and that they are deliberately ignoring the impact he is having on others, and

c. Conclude that the department function that he heads is not very important. As a result, these people will leave the firm.

4. Study Groups. Many meetings are important and practical. They bring together people with diverse backgrounds and result in valuable input for group decisions. However, the less intelligent person will commonly use them to gain access to the thinking abilities of others and to usurp the ideas discussed as his own. He can misuse the intent of the meeting to hide his own intellectual inadequacies and yet gain valuable information without contributing in kind to the group.
5. Poor Decisions. Perhaps the most fundamental mistake people with lower intelligence make is that they repeatedly make wrong decisions. Their vision for a given problem is frequently shortsighted, and they are not able to understand or incorporate information from sufficiently varied sources to make an informed decision. This is unfortunate because their errors will result in lost time, money, and business. For the most part, their work will have to be revised and performed again.

The best and the brightest individuals of the employee group will score high on all three of the verbal, numerical, and abstract tests. Such people are intellectually multitalented and can be considered candidates for top-level positions. It is not recommended that only the brightest people be hired for positions in the organization, however, for intelligence by itself is not sufficient to make a professional person successful. Interpersonal skills are also critical to success in a professional service organization.

INTERPERSONAL SKILLS

The necessity of good interpersonal skills is readily accepted and endorsed by most people, but the term is very broad and amorphous. Like intelligence, it is assumed that everyone in a marketing-oriented professional service organization possesses sufficient interpersonal skills to be effective with peers and clients. Some people will express the thought that "by definition, people must have solid interpersonal skills to be hired and promoted in our organization." This generally goes without saying. However, it also begs the question: Exactly what are good interpersonal skills? This is not an easy question to answer. Simply stated, good interpersonal skills involve three components:

1. The ability to deal with a more advanced or wider range of people and technical issues,
2. The skill to resolve problems in a shorter time frame, and thereby accept greater levels of stress, and
3. The temperament to work effectively in a more ambiguous environment.

The level of interpersonal skill required to perform under these conditions in a marketing-oriented professional service organization is slightly different than that which exists among professionals in more traditional organizations (traditional referring to, for example, government, academia, or charitable or corporate organizations). The reasons for this are subtle, but nevertheless valid. In a marketing-oriented professional service organization, the technical issues tend to be at the cutting edge. The average level of job pressure is higher than in more traditional organizations, and the corresponding time-frame demands more intense. Finally, the level of overall ambiguity is greater. Thus the level of interpersonal skills required to be successful in a professional service firm differs from that of a traditional organization.

In some ways, the differences between individuals in a professional service organization and people in more traditional professional employment roles can be compared to the members of the crew of a ship and the members of the crew of a submarine. The individuals on both vessels are well trained, thoroughly disciplined, and capable of performing the tasks required in their job functions. However, one group (submariners) operates in a more demanding environment—and needs greater interpersonal skills. In a professional service environment, the professional service people, like the members of a submarine crew, are required to interact under more "pressurized" conditions. The professional service person is required to deal with more intense pressure, less direct structure, and tighter time constraints.

In the marketing-oriented professional service organization, the personnel are required to accept the more strenuous conditions as a base line of performance. In addition, they are required to market and sell products with some level of expertise. This marketing orientation is an additional contribution to the rationale for the increased level of interpersonal skills required to be successful in a professional service organization.

Successful job performance for a professional person in any work environment requires self-discipline and high ethical standards. Successful performance in a marketing-oriented organization requires the additional skill of effectively marketing and selling the firm's products and services. In its simplest form, marketing professional services can be thought of as a process that begins and ends with people. People meet, discuss a commodity or product, agree on a medium of exchange, and complete the transaction. As this brief description of a sale implies, interpersonal skills are important to the marketing process. The more developed the interpersonal skills of the seller or buyer, the more likely that he or she will be able to influence the outcome of the transaction in a predetermined way.

The person with the greater degree of interpersonal skills will have opportunities to take advantage of the situation and make a better short-term deal for himself, use his interpersonal skills to establish a long-term and balanced relationship with his counterpart, and set aside his superior interpersonal skills and help the other person make a better deal for himself. Any one of these outcomes is possible in a sales transaction. In any case, the development of interpersonal skills is critical to the sales process. The person with the best developed interpersonal skills is likely to exert greater control over a marketing process.

The interpersonal skills necessary to be successful in a marketing/sales position are well established. Papers and books have been written about the importance of achievement motivation, empathy, and ego drive as three of the most often cited interpersonal skills necessary to be effective in sales. Defining the abstract traits necessary to be successful in sales is not strenuous. However, identifying the individuals who possess these skills and influencing these people to effectively use them to market professional services is the difficult task.

Identifying individuals who possess the interpersonal skills necessary to be successful in marketing professional services is partially dependent upon identifying a person's behaviour style. An individual's behaviour style is his or her fundamental way of viewing and interacting with others. A person's behaviour style will influence the type of interpersonal skills that he naturally demonstrates. That is, certain types of interpersonal skills are a natural outgrowth of specific behaviour styles. An individual's behaviour style will influence the types of interpersonal skills that he or she effectively uses. A person with behaviour style A will effectively demonstrate interpersonal skills A. Additionally, a person with behaviour style B will most effectively demonstrate interpersonal skills B. Person A can certainly learn to use interpersonal skills B, but his most natural and (effective) skills are those associated with his own behaviour style.

Some behaviour styles are associated with people who see life as a challenging set of goals to be met head on and enjoyed through all the successes and setbacks. Others see life as a competitive event and are determined to prove their ability vis-à-vis someone else's finishing second. Another group of people see life as a chance to make friends and enjoy themselves through associations and emotional bonds. Alternatively, some people see life as a half-empty glass but will never reach its potential. All of these people are demonstrating certain behaviour traits, which will be discussed in more detail in future chapters. These separate behaviour traits are the building blocks that form an individual's behaviour style. Initially, it is important to analyse and understand the traits separately. Once understood as unique traits, they can be joined in patterns to define a person's behaviour style. Succeeding chapters build on this definition of behaviour traits and behaviour styles to demonstrate how certain behaviour traits and styles are associated with success in developing a marketing-oriented professional service organization.

The concept of the SKAP profile has been used in this chapter to define a format for discussing critical individual factors. Using this format, three specific factors that should be measured in each candidate were identified and defined. Each of these factors contributes to the success of developing a marketing oriented firm. However, measuring these factors is only the first step in defining the marketing-oriented professional person. The measurements should then be summarized, reviewed, and compared to the degree of skill/ability required for the position.

The specific areas of technical competence will vary from company to company and for different positions within the same company. The areas of technical competence that interest the company can be decided upon in advance and individual interviewers within the firm with specific expertise in those technical areas can evaluate the candidates on their technical competence. Some people are high on one or two areas of technical competence, but few are high on all areas of technical competence. The areas of intelligence—verbal, numerical, and conceptual—are fairly standard and can be measured with readily available instruments. Again, some people are high on all areas of intelligence, while others are high on one or two areas. Those candidates who are in the middle range of technical skill and intelligence are probably limited in their ability to manage a wide range of functions in the firm.

4

Fundamental Consumer Behaviour

EXCHANGE AS A VITAL

Although exchange has been written about extensively in the marketing literature, it has been less investigated in consumer research. Yet, it is an essential part of consumer behaviour and deserves more attention in that regard. At the same time, treating exchange from the point of view of consumer behaviour does not mean a complete divorce from marketing aspects of exchange. However, it does mean a reassessment and redefinition of the roles each domain plays in exchange.

Marketing is largely concerned with exchange in the purchase process. Consumer behaviour also involves the purchase process, but it is concerned with the product use process as well. Therefore, consumer behaviour in some general sense concerns not only phenomena that are directly related to but also phenomena that might be characterized as post-marketing in the sense that marketing's influence on and involvement in consumers' use of products is nonexistent, more indirect, and/or less intense than its influence and involvement in product purchase. I will follow this general characterization here while noting that many exceptions may also exist. For example, marketing processes pervade the use of some services (e.g., the services provided on an airplane constitute a part of the **marketing of** the airline as well as providing an intrinsic response to consumer needs).

To examine exchange phenomena in consumer behaviour further, there exists the need to take existing consumer research theory and concepts and consider them in terms of exchange. There also exists the need to re-conceptualize exchange, itself, in terms of some new concepts. Therefore to pursue these issues, I will consider the following:

1. Exchange, energy systems, and life;
2. The resources exchanged;
3. A typology of exchange: the Consumer Exchange Framework;
4. The factors facilitating exchange: the Exchange Control Process;
5. Types of exchange parties; and
6. Implications for theory development.

EXCHANGE, ENERGY SYSTEMS, AND LIFE

Potency is a term derived by Alderson to speak to what consumers get out of exchanges. They seek potency or stored value in their assortment of goods that they believe will provide them with need satisfaction. Houston and Gassenheimer note that potency enhancement is the driving force in the marketing exchange process. Here, we might view potency enhancement in terms of an energy exchange between a consumer and his or her environment (which includes marketing stimuli), where energy is the vital force and power of life.

It also might be related to Gould's notion of potential energy in which consumers store energy within themselves or within products until it is called on and turned into the kinetic energy of activity and/or product use. Consumption in this context is the transformation of potential into kinetic energy. Finally, potency enhancement also might be viewed from a living systems and energy theory point of view in terms of energy flows resulting in entropy or loss of energy and negentropy or gain of energy and matter/energy storage.

This view allows us to consider the consumer as an organism in a system he or she is trying to maintain and control various levels and flows of matter/energy, experience, and life itself. These maintenance processes are undertaken to resolve the imbalance between actual and desired need satisfaction. Gould looked at the resolution of such imbalances in terms of one's perceived vital energy, which he saw as connected to all vital functions and which is "felt subjectively in daily consciousness in terms of desire, arousal, sensation and affect."

According to Gould, the consumer manipulates his or her energy to attempt to achieve desired homeostatic states that resolve imbalances. However, he or she may not necessarily achieve these desired states, although consumers can develop some skills in their ability to achieve them. From a living systems point of view, such homeostatic self-regulation has been defined in terms similar to exchange in that it can be understood according to Laszlo to involve an organism in a continuous transactional mode of relationship with its environment. What does the organism seek from the environment? This can be expressed in terms of a set of binary distinctions which serve to characterize consumers' living system needs. In general, consumers usually seek states characterized by terms on the right of the table and seek to avoid those on the left.

Gould described a number of "product use operations" that a consumer may use to meet his or her own needs; the consumer may manipulate his or her energy and attain negentropy, order, and other desirable characteristics. These operations include making an effort, expanding and integrating energy, balancing energy, externalizing versus internalizing energy, using "power" objects or substances, consumption shamanism, opponent-process effects, and self-experimentation. All these are important in considering how a consumer gets what he or she desires from consumption.

A particularly noteworthy operation from the point of view of exchange is that of externalizing versus internalizing energy. In maintaining and balancing energy, desire, sensation, affect, and the like, the consumer can either turn inward and control things through mental process of energy exchange and control or outward and use external means to control his or her energy needs. For example, if one is angry, one can mentally tell oneself to calm down or one can engage in external activity and product use, such as taking a pill, watching TV, listening to music, and the like.

Bipolar Principles of Systems Organization

Entropy	Negentropy
Noise	Signal
Uncertainty	Information
Chaos, Disorder	Form, Order
Variation	Specification
Randomness	Pattern, Regularity
Disorganization	Organization
Uncertainty	Certainty

Adapted from Germana.

These product use operations can also take various forms of what Houston, Gassenheimer, and Maskulka refer to as the acquisition of potency in one's assortment of goods. They suggest that this can occur in four forms:

1. Self-production,
2. Appropriation,
3. Exchange, and
4. Entity redefinition.

Here, whatever form they take, I argue that they involve an energy exchange with both one's internal and external environments. Products are used to facilitate this exchange. For example, the consumer needs food for a basic level of energy. He or she may acquire it through any of the four forms of acquisition of potency, but in any case, I would argue that all are forms of exchange with the environment. Self-production involves setting up one's own self-economic system in which one allocates kinetic activity energy and resources that are stored potential transformed into production use.

An example of appropriation is stealing food; the exchange involves one trading one's safety from the risk of accusation and incarceration for immediate need satisfaction. Exchange, which in Houston et al. refers to interpersonal exchange, can take place, for instance, when the consumer takes money, a potential energy storehouse, and expends it in exchange for food. But in this case, the exchange is also internal in that the consumer is weighing the trade-off between his or her having the money and his or her having the food. He or she exchanges the money for the food intra-personally with himself or herself (see below for a further discussion of intrapersonal exchange) as well as interpersonally.

Entity redefinition could involve (in the case of food) one saying for instance, that "I don't need so much food" when one is unable to acquire it. Even here an intrapersonal exchange is taking place as the individual is downsizing his or her concept of his or her necessary energy level in compensation for a loss of potential energy. In all these intrapersonal or self-exchanges, there are elements of expansion and balancing.

The expansion comes in terms of seeking to expand one's potency and energy base, whereas balancing comes in needing to integrate what one has, and not becoming unbalanced in seeking too much. In fact, the whole self-exchange process involves self-control, willpower, and mental accounting, which are necessary to balance too much desire in one direction when seen against desire in another (e.g., eating too much and becoming overweight).

The Resources Exchanged

According to resource exchange theory, any number of things may be exchanged, including both material goods and psychological goods, such as love and status. Resources can be viewed as forms of potential energy that, when used in exchange or in other ways, are consumed and transformed into kinetic energy. At least two dimensions of these resources have been identified: particularism (more or less) and concreteness (more or less). Particularism concerns the degree to which a resource's value is influenced or impacted by the people involved in the exchange. For example, love is highly particularistic because its value is greatly determined and influenced by the people involved, whereas goods are perceived as being less particularistic and generally not being related to any particular people (cf., however, Gould for ways to particularize goods in terms of personalization); (cf., James and James on alienable and inalienable goods).

An analogy might be made to types of economic competition. Perfect competition is less particular in terms of price being determined by a particular producer, whereas under monopoly conditions, price is largely influenced by the one producer and is therefore more particular. Concreteness concerns the degree to which a resource takes a particular form. We might ascribe this to its degree of materiality. In a study of the concrete and particularism dimensions, Brinberg and Wood found support for them but reformulated them into

1. Concrete/abstract (concreteness) and
2. Personal/impersonal and abundant/scarce (particularistic).

What is material and what is a sign of what would otherwise be an immaterial exchange is worth pursuing a bit further. Material things can be exchanged for each other or for immaterial things such as love. Likewise, immaterial things can be exchanged (e.g., love for love). An interesting example of material exchange for immaterial exchange is that of religious offerings and sacrifices and in which people engage in these ritual actions for the sake of some divine intervention. For example, consider the covenants in the Bible in which God exacts offerings from the people in exchange for looking after their well-being.

These exchanges involve religious consumers' physical offerings to an immaterial force in return for hoped-for actions on the part of God in making fruitful and fertile conditions for survival. This form of exchange points to the fact that there must be signs of success in an exchange and consideration given as in the law. For God to perform for the people, He must see that they are obeying His rules and making offerings.

Thus as illustrated in this example, material objects become ways of providing consideration for immaterial aspects of an exchange and making them tangible.

Brinberg and Wood also found that what resources are exchanged was influenced by perceived conditions, which they manipulated under experimental conditions. When all resources were perceived as scarce, individuals tended to exchange particularistic resources such as love and status. This might be equated to anecdotal meanings often expressed in songs that declare that "I may not have a lot of money but I sure can give you a lot of love." When all resources were perceived as abundant, they tended to exchange universal or less particularistic resources such as money or goods. These results indicate the effects of contraints on what is likely to be exchanged in various conditions.

CONSUMER EXCHANGE FRAMEWORK

Exchange between a marketer and consumer has been found to be a product of the interaction of two important dimensions:

1. Perceived value and
2. Perceived control. Perceived value concerns what a person perceives he or she will get out of an exchange and, as characterized by Gould, may be utilitarian (functional) or symbolic in nature. These value distinctions are of course relative, and utilitarian value in one sense has symbolic value and symbolic value possesses utilitarian value.

But the distinction is still useful because it provides a way to separate functional meanings from image and status meanings, as is often done in marketing and consumer research. Perceived control concerns the degree to which an individual perceives that he or she has control in obtaining what he or she desires from the exchange. Both dimensions may be seen in terms of energy as well. Perceived value represents the energy one obtains from an exchange, and perceived control represents how and how much energy needs to be expended in the exchange process.

Taken together, perceived value and control determine a four cell typology known as the Consumer Exchange Framework (CEF): he also discusses the Marketer Strategic Exchange Framework — MSEF). These include (1) utilitarian choice, (2) symbolic choice, (3) utilitarian determinism, and (4) symbolic determinism. Utilitarian choice involves exchanges in which the consumer seeks practical function and sees choice possibilities in terms of price, value, and bargains.

He or she feels a degree of control in the process. Symbolic choice also involves a major degree of choice and control but focuses more on status, luxury, or other less utilitarian needs, although we should keep in mind that what is utilitarian is relative and consumer-perceived. Utilitarian choice is one constraint that hampers the consumer in even the most purchases. Poverty is one extreme constraint that will place a person in this cell and limit his or her choices and sense of control. Symbolic determinism again involves a lack of a sense of control but focuses on symbolic aspects of products in which the consumer is forced to conform or accept things against his or her values. Being forced to "keep up with the Joneses" is one form of consumer behaviour that fits into this cell.

Factors Facilitating Exchange

Gould, in a series of propositions, discussed what was likely to increase the possibility that an exchange and its reciprocal flows of energy will occur. The following statements summarize these propositions:

1. The consumer is more likely to engage in exchange if he or she perceives there to be more goal congruence (primarily concerning value) between himself or herself and his or her trading partner;
2. There will be more such congruity if there is agreement on perceived value;
3. The more goal congruity, the more the consumer is likely to feel self-empowered, whereas the less goal congruity there is, the more he or she will attempt to exert power over his or her trading partner;

4. The more power of either type the consumer perceives he or she has, the more likely it is he or she will engage in the exchange;
5. The more power he or she perceives he or she has, the more self-efficacy with respect to the exchange he or she will perceive;
6. The greater the self-efficacy, the greater will be the consumers' expected outcomes and likelihood of exchange;
7. The better the outcomes, the more likely it is the consumer will continue in the exchange process;
8. The more likely exchange becomes, the higher the perceived self-efficacy and expectations of outcomes on the part of both exchange parties;
9. Outcomes exceeding outcome expectations are more likely to result in exchange satisfaction; and
10. More satisfaction with the exchange will encourage exchange reengagement in the future. When the last step is bridged, relationship marketing becomes possible.

These factors are reflected in a model, the Exchange Control Process, which focuses on the idea that the consumer (and trading partner whether marketer, another consumer, or the self — see below) goes through a series of steps in reaching actual exchange:

1. Goal congruity determination,
2. Power determination and exertion,
3. Self-efficacy determination,
4. Outcomes evaluation,
5. Exchange decision and behaviour, and
6. Exchange satisfaction determination, which induces feedback to the goal congruity determination. Indeed, exchange is not an instantaneous process and even impulse buys may involve these steps, although they often go by quickly and seemingly imperceptibly. At

each point in the process the consumer sizes up his or her situation and decides whether to continue in the exchange process or not.

The Exchange Control Process can be used to model and integrate aspects of consumer behaviour not previously considered in relation to exchange. For example, brand loyalty might be considered in terms of goal congruity determination and ultimately in terms of exchange satisfaction.

TYPES OF EXCHANGE PARTIES

Although exchange theory in marketing has tended to focus on exchange between a marketer who is producing and selling a product and a consumer, other types of exchange parties might be considered. There are also exchanges among consumers themselves, intrapersonal or self-exchanges, and exchanges with objects.

Exchanges Among Consumers

Exchanges among consumers involve products, services and/or consumption processes that may involve decision-making give and take and/or sharing. These exchanges may rely on word-of-mouth communication, such as occurs in opinion leadership, bartering and trading of products or services (e.g., "I'll clean your house in exchange for piano lessons"), household-decision making, organizational decision-making in which co-workers are making decisions regarding purchase and use of industrial products or services, and sharing of products such as eating a meal together and sharing or tasting food together.

Such exchange is interpersonal as is that between marketers and consumers, but it differs from the latter in that there is less feeling of being sold something. Although some of these forms of exchange have been studied, it is usually without regard to their exchange consequences, and attention to these is clearly called for. For example, with respect to word-of-mouth conversations, opinion leadership, and receivership, it would of interest to consider the valuation system that people apply to them, what they put into them, and what they expect to receive in return.

Self-Exchange

One new approach to exchange that emerges from a consumer behaviour point of view is that of intrapersonal self-exchange in which a person engages in exchange with himself or herself rather than interpersonal exchange with another individual or other external party. Mick and DeMoss distinguished gift giving in terms of self-gifts and interpersonal gifts. Within that context, they found that a major theme of self-giving involved exchange, or what I hereafter refer to as self-exchange. Such self-exchange may involve a mental contract with oneself, "If I exercise, I will reward myself with a treat." In this example, self-giving may also involve a process of self-regulation in which the consumer reinforces various desired behaviours by providing something desired (i.e., the treat) in exchange as incentive for one to engage in what is perceived as a compulsory and perhaps somewhat distasteful behaviour (i.e., the exercise).

As with interpersonal exchange, self-exchange may involve all the resources of exchange from the most material to the most immaterial. In fact, much of the consumer choice process in which various forms of trade-offs are considered and trades made within oneself and in which self-bargaining is undertaken may be seen as self-exchange. Also implied in self-exchange is that individuals have their own internal valuation system in which they value one action over another and even one type of thought or feeling over another. They also have varying degrees of perceived control over their own exchanges.

For instance, an individual can perceive that he or she cannot live up to a bargain with himself or herself and either not make any future ones or get in the habit of breaking them (e.g., repeatedly offering oneself a reward for keeping on a diet but usually breaking the diet and either withdrawing from making any future bargains or breaking the bargain by giving oneself a reward anyway). Self-production is also an element of self-exchange in which an individual allocates resources away from external market exchanges and toward internal self-markets in which he or she exchanges time, effort, and energy for desired products and self-services. In this regard, we might consider the self-economy of desire, posed by Gould, which involves production, consumption, and sexuality and which engenders self-exchanges (e.g., I can trade time, effort and energy spent in one domain for another).

Certainly these three areas do not confine the choices and there may be other areas of exchange involved (e.g., health for pleasure as when one indulges in too much of and/or addictive activity). The main point is that consumers make an enormous number of self-exchanges in an economy of desire and energy that not really been thought of in exchange terms before. What is an indifference curve in economics after all but an exchange map in which the consumer is indifferent between the exchanges of one thing for another.

Exchanges with Objects

Consumer-object relations theory speaks to the issue of consumers' relationships with products. These relationships involve dynamic energy interplay in the form of psycho-physiological connections and affective and cognitive connections. In this regard, consumers may engage in exchanges with objects. In fact, certain legal theories concerning product liability have recognized the separate effects of objects. Moreover, the idea of me versus not-me starts with psychoanalytic objects-relations theory and most particularly with transitional objects with which the infant begins to recognize differences between himself or herself and the environment.

Notice that in this theory people as well as objects are called "objects" because in infancy a person and object may be indistinguishable, and for instance, the mother's breast is such an object of early childhood encounter. Winnecott notes that infants of either sex become fascinated with dolls after a few months of life. From our relations with such objects as well as with our mothers and others, we learn about interaction and exchange with the environment from an early age. This suggests that future exchange theory and conceptualization should explore the earliest roots of exchange in the growth and development of the child.

A most obvious example of adult object-relations in consumption terms is in exchanges with pets, which can be viewed as a type of object and certainly as a possession. For instance, one might bribe a pet dog with a treat to perform a trick. A less obvious example but also of the same order of object- relations phenomena is that of a person who invests psychologically in an object, takes care of it and uses it with the understanding that the object is to perform whatever function the consumer desires.

In many such cases, the consumer personifies or fetishizes the object and treats it as though alive and as a person. He or she may even name the object, talk to it, mourn its loss and respect its place in the universe. To be sure, I have treated such exchanges with objects a separate category, but in fact, I regard them in one major sense to be a special category of self-exchange in which one is personifying the object and also dealing with aspects of one's extended self. These objects have become a part of one-self and one is exchanging emotion, feeling, and energy with this part of oneself.

IMPLICATIONS FOR THEORY DEVELOPMENT

Exchange is a dynamic energizing process by which the consumer interacts with the environment to achieve his or her needs. Interpersonal exchange between marketers and consumers is only one type of exchange. There are other forms of exchange, some of which do not involve other people at all but oneself and even objects. In developing a general theory of exchange, we need to search for phenomena and conditions that are elastic across all forms of exchange as well as to specify those conditions that distinguish the various forms. In this regard, there needs to be more basic research that takes account of research previously neglected in this area.

I would first suggest that psychoanalytic theory, such as object-relations theory, which has already been explored in consumer contexts, might be more fully investigated and used in exchange theory development. In more fully developing how consumers relate to the world from infancy on, we can begin to develop theories of exchange more rooted in the deep structures and vital energizing dynamics of the human psyche. We should at some level be able to describe relationships people have with objects, themselves, fellow consumers, and marketers in terms that describe what it is they introject or obtain from exchange relationships and what it is they project into these relationships, thus defining the exchange process in precise psychoanalytic terms.

Second, we might take the different forms of exchange considered here and show how they work in terms of the factors facilitating exchange, constraining exchange, and the resources exchanged. How much energy do consumers put into the exchanges and how do they make that energy decision? What is the same and what is different about an exchange among consumers from one between consumers and marketers? What differentiates interpersonal from intrapersonal exchanges? A law of exchange that has been a concern of exchange theorists needs to concern itself with different forms of exchange under different conditions in order to be a comprehensive theory.

Thus, following from this concern with different conditions, as a third research consideration; we might investigate exchange roles and individual differences as other conditions that influence the exchange process. These might include sex roles and situations where one's sex is made salient, cross-cultural differences, and personality differences, among others. I would also emphasize the nature of services exchanges as a form of exchange in which many factors of deep psychic structure are likely to emerge but that have not been explored.

To illustrate the latter point, we could study one person's need for a dominant person who is reminiscent of a parent to care for him or her in a health care setting. Here the exchange is as much with our projection of a parent as with a real person. We might also investigate the nature of exchange in a setting in which the individual acts on his or her own versus acting as a party to an exchange as part of a group, such as occurs in organizational and household exchanges and decision-making.

Fourth, exchange as a process rather than a single act needs to be considered. The ideas of relationship marketing, relieving post-purchase dissonance, repeat purchase, and brand loyalty are traditional marketing concepts that suggest that exchange does not always start nor always end with a purchase. Thus, the Exchange Control Process in which the parties to an exchange attempt to take control of the process and turn it in their own favour needs to be considered. Research into this process alone should yield fruitful results in more fully understanding what people seek from exchange; how they engage in exchange management; how they develop perceived self-efficacy in the process and related processes of impression, pleasure, desire, and energy management; and how they form expectations regarding exchanges and other outcomes, both in terms of one exchange and in terms of exchanges in general.

The last idea suggests a fifth point that should be considered; that is, what I call the exchange career. This concept is the defined as the consumer's experience with exchanges in all forms throughout his or her lifetime. It also can be broken down into smaller careers in terms of particular types of exchange (e.g., interpersonal versus intrapersonal), exchanges with different types of people (e.g., men versus women), exchanges involving different resources (e.g., money, love, goods), exchanges involving specific types of products, and exchanges at different levels of exchange experience. Regarding different levels of experience, first exchanges are quite likely to vary from later exchanges.

Although there are a number of existing approaches that might deal with this aspect of exchange, there nonetheless remains the work of testing these approaches and/or developing new ones. I believe the career approach offers a rich framework in which we can explore consumer socialization and experience over time. In fact at present, we have no clear concept as to how people develop negotiating styles, learn rules of valuation, and experiment with the exchange process.

Sixth, a holistic systems approach to exchange should be taken. In this regard, the total environment of the individual should be considered in terms of energy input and output and the economy of desire and pleasure mix the consumer is seeking. Taking such an approach means integrating various levels of behaviour determination, including the cultural/ sociogenic, psychological, and psycho-physiological levels. Looking at different levels of exchange behaviour will enable us to calibrate the system of feelings and culturally constructed meanings that people ascribe to an exchange and provide a new, more global framework for both theory development and empirical studies.

This chapter has concerned itself with exchange from a consumer point of view and showed how exchange can be regarded as a much broader concept than has previously been considered. Hopefully, future theory will reflect this inclusiveness and seek to find its primary roots in intrapersonal as well as interpersonal phenomena and in the economy of desire and energy that we all share.

5

Services Marketing and the Spatial Dimension

SPATIAL MARKETING

Spatial marketing involves the concepts of *placement* and *movement* - of both marketer activities and consumers. To date, the spatial dimension has been a central one in marketing due to the wide range of activities affected by its related elements of distance, cost, and time. However, the way we think of these three elements is changing dramatically, which means that spatial marketing is undergoing a period of rapid, potentially fundamental change as well.

Advances in technology are making it increasingly possible for consumers at any location to have access to products and services quickly, effectively, and inexpensively without the need physically to patronize the traditional network of distribution and retail centres. And along with these abilities are likely to come significant changes in consumer wants, needs, and expectations about marketers as well. The impact of these forces on the future of spatial marketing is not yet known, but they make the subject a very important one for exploration and analysis.

The major issues appear to be

- Are the constructs, assumptions, and insights of spatial marketing robust enough for a world capable of accessing computerized information, on-line shopping, and just-in-time or even electronic delivery, or is spatial marketing as we know it so context dependent that its basic tenets only apply to a world of shopping trips, driving time, billboards, and malls?

- What will the impact of the emerging emphasis on customer-marketer exchange relationships be on spatial marketing? Are spatial marketing and exchange thinking compatible, and can their union provide insights for marketing as it tries to prepare for the technological, social, and economic changes of the coming decades?

MARKETING AND SPATIAL MARKETING

It can be argued that marketing is the business discipline that provides the individual consumer with access to the highest levels of satisfaction from the production and business processes. One basic reason that marketing has grown so rapidly as a field of study has been its ability to offer solutions to a very basic economic problem. This problem is the fact that the *demand* by consumers (whether individuals, families, groups, businesses, or institutions) for goods and services is spread out at millions of points in geographic space, whereas the *supply* of those goods and services tends to be fixed, or at least available at only a relative handful of points.

Many of the advances in marketing over the last hundred years have involved the development of innovative ways to unite the two: first, to bring *supply* close enough to demand so as to make exchanges convenient, safe, and economical for consumers, and second, to pull *demand* the remaining distance from the homes, yards, garages, offices, and so on, where it is generated to the stores, warehouses, manufacturing facilities, and so on where supply is available for exchange. The *supply-side* of spatial marketing thus involves a combination of location, distribution, and logistics, whereas the *demand-side* involves a combination of location, promotion, merchandising, and research.

The practical and theoretical contributions of the spatial dimension of marketing have been very important for most of the history of the discipline. With the cost of new locations so high, the decision to locate a marketing facility at a particular site represents in itself a very significant investment in a relationship with the people or organizations the marketer intends to serve. Therefore, much of spatial marketing has centred around techniques for better selection of such locations. But other contributions have included the planning of product variations by geographic market, the clustering and configuration of competing (and complementary) shopping alternatives, the spatial use of promotion, a dependable distribution network, better transportation, and faster delivery, all based on balancing cost considerations with a sound understanding of consumer spatial behaviour.

To the extent that the billions of dollars spent on *placement* and *movement* have helped create mutually satisfying exchange relationships among suppliers and consumers, they have been well spent. In fact, it can even be argued that much of the spatial structure of society, especially in the United States (because of when it developed), has evolved specifically because of an underlying drive by marketing thinkers to maintain satisfying exchange relationships with consumers in the face of economic conditions that have made it harder and harder to do so.

In Early Marketing

For hundreds of years after people began to live together for mutual benefit beyond simple protection, the production of items for consumers remained limited to household-size lots. Markets were therefore limited in size by the availability of supply, which meant that the producers knew the consumers and their needs personally. The consumers lived so near the producers that, although marketing existed, the exchange of goods and services, information on what and how much to make, and what to charge were so much a part of the basic nature of the exchange relationship that marketing was invisible. Over time, however, production in certain locations with better resources and better access to capital and labour markets became more efficient, and transportation advances made delivery possible to a wider geographic area.

This was especially the case in the United States, with its very distinct regional differences in natural resources and capital availability. By the middle of the nineteenth century, products created at greater distances from consumers began to supplant those made locally. As mass production became more and more the norm, the responsibility for creating and managing the supplier side of the exchange process then fell on the shoulders of actual *marketers*. One was the small retail merchant who

1. Located his or her business to serve a particular community of people;
2. Sought out, bought, and stocked the products of various manufacturers (either directly or from wholesalers) in specific lot sizes to meet the needs of the consumers of that community; and
3. Changed over time as the consumers told him or her to change.

The exchange relationship thus became *consumer-to-marketer* rather than consumer-to-producer, and *physical patronage* of retail establishments became the chief medium of the exchange process. As before, however, there were relatively few consumers, and most were so physically and personally close to the retailers that their personal relationship included most of what was needed to maintain effective exchange.

Of course, not all mass-produced products were bought as a result of physical patronage of retail stores even then. Since consumers typically worked on their farms or for wages six days a week, there was limited time available for consumers to travel to an area where they could actually shop. A number of products could typically be purchased from other marketers such as itinerant merchants who loaded up their wagons at the factory or warehouse (much like today's ice cream and Popsicle trucks, lunch wagons, and street vendors) and traveled to the homes of individual consumers or to workplace, church gatherings, or town squares.

Still other products could be purchased from catalogs or from local or visiting sales representatives and delivered by mail or contract carrier. The spatial element of these non-retail store exchanges typically involved distance as well, but distance in terms of the *amount of time* required for supply to reach the locations where demand was generated and exchange consummated. In these relationships, consumers who wanted to buy products that were not readily available might request that the merchant purchase a specific product and deliver it on the next circuit — even if that meant that delivery was several months away. The personal relationship between consumer and marketer was the glue that held together this type of exchange process, since

1. Payment was often in advance,
2. The consumer may have had to forego buying from another merchant during the delivery process, and
3. In the absence of strong brands, the consumer had to trust the marketer to compare brands, negotiate prices, and obtain the best product to meet his or her needs.

In general, the role of distance during the early years of the discipline involved supply-side marketing much more than demand-side marketing. If the merchant could acquire the products that were desired by his or her consumers, they would sell. And with a small customer base, it was not hard for small merchants to devote significant efforts to finding out exactly what individual customers wanted. Location was not especially critical compared to personal services and the seller-buyer relationship component of the marketing mix, largely because there was so little competition for consumer patronage in most areas and product categories. If there were only two suppliers of a certain type of good within a geographic market, it was perfectly logical that they would end up in business side by side.

In the Industrial Age

By the early twentieth century, however, changes in market structure and advances in the technology of manufacturing and delivering products made personal relationships less and less important in holding the exchange process together — while no distance and spatial marketing more important. One significant change involved the growth of competition. As more and more merchants located at sites accessible to an individual consumer, he or she began for the first time to have choices among numerous businesses to patronize on a given shopping occasion.

Along with improvements in consumer transportation, this made comparisons and *relative* distances to various patronage alternatives a central factor in shopping decisions. Since businesses which located nearest the most consumers had a built-in advantage, the location decision began to be an important weapon in competitive strategy. Promotion (with flyers, catalogs, posters, and salespeople) took on spatial elements as cost considerations forced merchants to concentrate on areas where their response would be highest. Delivery was a potential competitive weapon as well, but an expensive one unless distances were short and trips well planned.

At the same time, standardized products, powerful brand names, relatively uniform quality, faster and safer delivery, and larger, better-stocked retail stores began to make the *products* (and the stores' ability to use the distribution system to keep those products in stock) the key to exchange rather than the supplier-consumer personal relationship. Since relationships were already the status quo and innovative merchandising was new and exciting a merchant's effectiveness at acquiring the best varieties and qualities of merchandise at the most appropriate prices could more than offset differences in personal services in generating competitive advantage. As today, consumers with the ability to make choices could still patronize the smaller, relationship-oriented merchants for a portion of their product needs, but that portion was typically small enough to keep such small retailers small.

Finally, as populations increased, immigration brought people of different backgrounds, and out-migration to suburbs and new cities became more attractive, it became harder and harder for growing marketers to know their individual customers personally. The firms that stayed small enough to maintain personal relationships with their customers could not achieve the economies of scale and cost advantages of those that grew larger. Therefore, their prices and selection were typically worse than their new competitors, and their markets shrank accordingly.

For consumers who switched to the larger merchandisers, *impersonal* services (layaways, revolving credit, rapid restocking, delivery, wider selection, and so on) took the place of *personal* relationships between the business and the customer in differentiating among firms with similar product offerings. There was simply not the technology available to blend mass production with individual consumer-marketer personal relationships.

With the growth of competition and the decline of personal relationships marketing came a need for innovative placement of retail sites to attract consumers. Businessmen turned to geographers to search for effective means for selecting locations. This early spatial marketing research tended to be extremely *aggregative* in nature, aimed at summarizing large-scale activities involving mankind and the physical world. An example of this approach in marketing geography was Reilly *Law of Retail Gravitation*. Reilly's Law dealt with the ability of a centre (usually a town) to draw demand from the geographic areas between it and other competing centres.

In short, the relative drawing power of the centre (its size, number of stores, and so on compared to competing centres) dictated the distance its market area boundary extended toward the competing centre. *The Area of Competitive Advantage*, derived directly from Reilly's Law, provided the geographic region within which a town (or, by analogy, a business) enjoyed a natural ability to draw patronage. Although Reilly's Law ignored individual differences among people and their behaviours, it was extremely popular in that it gave marketing practitioners guidelines for allocating salespeople, advertising, and the general targeting of "their" consumers. It was also valuable in the analysis of prospective new locations, since the market potential of the region enclosed within the *Area of Competitive Advantage* could be estimated directly.

Central Place Theory (CPT), another aggregative but valuable contribution to early spatial marketing thought and practice, was developed by German economic geographers Walter Christaller and August Losch. CPT was a normative framework aimed at explaining the spatial configuration of a set of distribution centres to allocate goods and services to a geographically dispersed population most efficiently. In Central Place Theory, individual rational households, each living at individual sites, each making their own rational decisions, collectively create spatial markets and dictate the optimal configuration of firms needed to serve them.

Although only theoretical in nature and based on a number of restrictive assumptions, CPT still forms the basis for the great majority of thoughts about and decisions regarding retail and distribution locations. Central Place Theory begins by assuming a large number of individual consumers distributed over an unbounded plain at a uniform density. Each consumer can move freely in any direction he or she chooses in order to achieve satisfaction from the exchange process. However, it costs each of them t dollars to travel each mile m. So as rational beings with perfect information, they will never travel more than necessary to obtain what they need. Also, the consumers each have a typical downward-sloping demand curve, so that they demand less of a product the more it costs them.

If a merchant y locates a business among the consumers at site m_0 and offers a good x at price p, a spatial market evolves around him or her. To consumers who live at m_0, the good costs exactly p. To consumers who live m_1 miles away, good x costs $p + m_1 t$, the cost of the good plus the cost of transportation to obtain it. A consumer who lives at m_0 who faces a price p for good x will purchase and consume q_0 volume of that good. However, a consumer who lives at some distance m1 from m_0 must pay $p + m_1 t$ for it and therefore will purchase q1 (which is less) of it. A consumer who lives at some distance m_2, which is still further away than m_1, must pay $p + m_2 t$ for it and therefore will purchase still less (q_2) of it. Eventually, there is a distance r where the price p + rt is so high that no demand exists for good x ($q_r = 0$). The amount consumed by each person is therefore a function of the price to the consumer at his or her place of residence.

Since consumers of this good are identical, and since travel in all directions is equal, it is possible to spin the demand curve of consumption around m_0 and generate a demand *cone* that captures the total volume of consumption in the spatial market for good x and merchant y at price p. At radius r there is no consumption q_r, because p + rt is too dear. The maximum consumption is at m0, because the price is the cheapest (p). Each different price the firm charges generates a different size of market area and a different amount of volume under the demand cone. The *optimal* price is determined by generating an aggregate demand curve by changing prices and observing revenues. The optimal price (and optimal market area from the perspective of that firm) is by definition the price where marginal revenue = marginal cost.

Eventually in Central Place Theory, numerous additional firms enter the market and configure and reconfigure themselves spatially to achieve the highest available profits (pricing at the same p). As competition increases, market areas finally begin to overlap at the edges, and consumers relatively equidistant from two centres for the first time get choices regarding where to shop. Since they are rational with perfect information, they choose once based only on distance (and never recant) — which effectively bisects the overlapping arcs of the circles and yields market areas in the shape of perfect hexagons — which is the final optimal configuration of market areas under Central Place Theory for a single good from the standpoint of society in general.

When different levels of goods are included, a specific hierarchy of market areas results. A network of local distributors develops for allocating lower order goods (groceries, household necessities, and so on), secondary networks develop for different levels of middle-order goods (e.g., clothing, standard auto dealerships, and furniture), and a network of regional distributors emerges for highest order goods (e.g., world-class symphonies, major league sports, and Maserati dealerships). At each level, competitors are spread out as evenly as possible so as to minimize competition, the distance between them based on the number of consumers needed to profitability.

The basic tenets of both Central Theory and Reilly's Law formed the conceptual and practical basis for most site selection research. Central Place Theory was applied in the search for "holes" in market structure, areas where there was more than supply and where consumers were forced to travel more than necessary to obtain the goods to maintain their preferred assortment. Reilly's Law was used as the basis for estimating market potential around prospective sites. Once boundaries for the Area of Competitive Advantage were set by his formula, the gathering of demographic, traffic flow, competitor, and other data followed, with the goal an overall estimate of dollars generated by the residents of that "market area."

In fact, many spatial marketing decisions made today are still based on the aggregate-level insights from Reilly's Law and Central Place Theory. The straight-line distance and cost notions of CPT, and the idea that direct competitors should have equal-sized market areas with hierarchies of competitive overlap, are still major assumptions on which many spatial marketing decisions are made. In general, however, the aggregate approaches have been disappointing in terms of prediction of actual business performance and in providing any theoretical insights about actual consumer spatial behaviour.

These weaknesses were apparent by the 1950's, and a great deal of research was devoted to searching for the nature of and motivations behind consumer shopping decisions. However, it was a mathematical psychologist that provided the breakthrough for the field of behavioural geography that was to follow. R. Duncan Luce published a book entitled *Individual Choice Behaviour: A Theoretical Analysis,* part of which centred on what he labeled the Choice Axiom. Luce *Choice Axiom* stated that the probability that an individual consumer would choose a single object j from his or her choice set J is in direct proportion to the ratio of the utility of j to the overall utility available from all the elements of the choice set J. David Huff blended an interest in shopping centre location with the basic choice axiom to create what is still referred to as the Huff Model.

Adding the probabilities for different alternatives across all consumers yielded market share estimates. The impact on these shares could then be tested under scenarios of different sized centres, different locations, and different type products. The field became known as *spatial interaction,* and subsumed older research concerning gravity models, incorporated the new research into consumer spatial behaviour, and concentrated on constructing a body of mathematical models to define the hypothetical relationships among people, businesses, and patronage behaviour.

Dozens of subsequent research studies were devoted to advancing the basic spatial interaction model (and its Luce Axiom basis) by using more and more detailed variables, different choice settings and alternatives, and sc on. With the introduction of the Logit model with its computer codes and easy-to-estimate parameterization, individual choice research, although with a random utility underpinning instead of the fixed utility assumed by Luce, diffused rapidly through all of academics. Other popular operationalizations and extensions of the consumer choice model such as MCI, PROBIT, DOGIT, and so on exist today, but estimating the utility of an object to *a single consumer* is still at their conceptual (if not always their parametric) base.

The work in geography of Fotheringham, Ben-Akiva and Lerman, Ghosh, Neslin, and Shoemaker, Ghosh and Craig, Fischer and Nijkamp, and so on has for the most part remained basically disaggregate, since at the core of most geographic choice research is the realization that each consumer begins his or her choice process from a unique location in space.

Although not guaranteeing the near monopoly it once did, a firm's location is still critically important in its competitive success. Company growth and franchising successes are typically discussed in terms of numbers of locations or branches, and differences in performance among branches can largely be traced to variability in the markets surrounding the sites. In many areas it is nearly impossible for competitors to obtain directly competing sites due to crowded markets.

Location typically dictates other marketing mix activities as well. The *supply-side* of spatial marketing works to integrate the new location into the supplier networks so as to get rapid, efficient re-supply capabilities. The *demand-side* of spatial marketing concentrates on understanding, influencing, and predicting consumer spatial behaviour within the market area the business elects to serve. Decisions regarding the penetration desired within the market area, competitive strategies, and other marketing mix factors are filtered through models of individual consumer reaction. The high costs of promotion and advertising mean that only specific prospective customers and their residential areas should be targeted. In general, of course, the better situated the business is with respect to its targeted customers and competitors, the less effort there is in attracting patronage. And the farther away the firm is from its consumers, the more radical and expensive its marketing policies often must be ("drive a little and save a lot").

Overall, the factors that have made spatial marketing such an integral dimension of marketing over the hundred-year history of the discipline are easy to understand. When efficient production is tied solely to economies of scale -access to raw materials, and highway, air, water, and rail transportation hubs -marketing interaction is *largely* spatial. When production is far removed from most consumers, replacement of inventory is slow, and opportunities for exchange centre around inventory on hand in particular retail establishments, consumers have no choice but to get into cars, cabs, or buses and physically patronize those establishments in order to enhance their assortments of products and services.

Marketing in the Electronic Age

However, the advanced world is now moving rapidly into what can be termed the *electronic age*. Large numbers of products are created almost entirely of electronics, and even those that are not electronic typically rely on electronics and automation for much of the manufacturing, distribution, and marketing processes. Production capabilities are changing rapidly with the advent of smaller, more flexible, computerized machines, tied together by electronic data interchange. CAD-CAM-CAE technology makes it possible to go from new product idea to engineering drawing to mold in minutes or hours rather than months. A vast existing network of wholesalers buying via computers from suppliers around the globe makes raw materials available almost anywhere.

Computerized Numerical Control machines make small production runs as economical as large production runs, with almost no downtime between numerous different types of products being molded, cast, cut, drilled, welded, bent, and so on. Data transmission capabilities and electronic controllers make it possible for facilities worldwide to be linked together in real time. It is now possible to think of an order being taken in Kansas, a design being created in New York (or Paris, for that matter), and molds made and production started in those sites closest to the Kansas order point with the most available capacity at the time.

Products such as magazines and newspapers are already created partially in one site, sent electronically to the various local markets, and adapted by representatives in those areas to reflect the specific interests of potential patrons there. And even that original production site does not have to be centrally located: the "data linkage" distance from Maine to California is essentially the same as from Boston to New York. Actual transportation is still a stumbling block for many types of products — but as the distance to one of an increasing number of production sites decreases, and specific sites selected depending on which can respond the fastest, costs of distance will decrease as well as the times associated with distance.

For the individual consumer, the process that makes the products appear is invisible. The knowledge that he or she (or they) can study the marketplace offerings, order via telephone or on-line computer tie-in, and receive the desired products quickly and efficiently makes the actual distances between order takers, mold makers, producers, and customers moot. In short, "production," whether real or perceived, for many product categories is moving much closer to consumption. And as get more flexible and data transmission capabilities improve, it may be possible to conceive of customization of products in real time for *individual* consumers. In such an event, manufacturing has the potential, at least for those certain products, to move back to its original roots -production at the point and time of desired consumption.

The end result could even be McCarthy's classic "segment of one," where each individual consumer becomes his or her own market, essentially ordering the products and services that provide him or her with the highest satisfaction and having them delivered at the correct time for use or consumption. Overall, these new avenues of access to products and services serve to empower the consumer and allow him or her much more control over the desired outcomes of the marketing process: the assortment available; the storage and usage capabilities of the products and services being sought; and flexibility in the acquisition, ownership, and consumption of the products.

Electronic Marketing and Retail Patronage

To date, the underpinnings of spatial marketing, and in fact, the spatial structure of economic society, are rooted heavily in mass marketing and the notion that physical patronage is required to initiate exchange. The problem is that when one tries to formulate location and other spatial strategies for the 1990's and beyond, a number of serious questions about shopping patronage begin to emerge. Why do consumers *want* to travel in order to shop? Or do they at all? Obviously physical patronage is not all it is cut out to be, or catalogs would not be so successful; nor would companies that specialize in deliveries of pizza, or steak, or laundry.

In fact, many of the forms of what were once spatial marketing are no longer spatial. One doesn't *have* to go to the bank anymore, or the stock broker, or the movies, or even for many items the mall. Access to information, product choices, service, and even delivery is often a matter of pushing the appropriate keys on telephones or computers. With catalogs and toll-free numbers, or on-line information and buying services, consumers can avoid clothing stores, furniture stores, department stores, and even auto dealerships. To a large extent, local retail firms now must compete with catalog or on-line shopping companies located hundreds or thousands of miles away.

When consumers trade dollars for goods and services, either by electronic or physical means, they "invest" not only money, but time, energy, opportunity costs, and at least some level of commitment and trust related to the vendor. Each of these investments is "at risk," with the potential for poor products or services and the economic and emotional losses associated with them. To be certain, there are still a number of balancing factors holding electronic shopping back. Electronic shopping can increase the emotional risks of not being able to touch, try on, compare, and in general "try out" merchandise. But as production and delivery systems become more efficient and sophisticated, the delivery time for goods purchased via electronic shopping alternatives may be nearly as short as a trip to a store. And it is possible that liberal return policies can offset the inability of consumers to "feel" the merchandise (squeeze the Charmin?).

On the other hand, electronic marketing has a number of very distinct advantages over traditional patronage-based marketing. If consumers physically patronize retailers, they add several additional negative factors to the expense side of the equation: the risks associated with automobile (or other modes of) travel, parking problems, exposure to the elements, the potential for crime, the need to deal with poorly informed or high-pressure salespeople, the risk of not finding the specific product assortment they desire, and many more "costs." And in addition, retail prices are in many cases higher than catalog or other alternative supply prices since the costs of rent, salaries, local advertising, ambience, and so on (even shoplifting) must be covered by markups. And this difference is likely to grow larger in the future as catalogs go on-line and both telephone and computerized buying become more common.

The specific degree of impact from electronic competition on the retail/wholesale sector depends of course on the particular goods or services under consideration. Extending this logic, it is possible to re-conceptualize the notions of convenience goods, shopping goods, and luxury goods. A computer, a suit, or even an object of art could be a convenience good if consumers could compare alternatives in catalogs or on a computer screen, choose among them easily, and have the selection delivered quickly to avoid anxiety and post-purchase dissonance.

On the other hand, products that must be shopped for physically may take on more characteristics of luxuries, since physical patronage requires significantly more planning and organization. Spatial marketing as we think of it will be likely to remain important for these latter product categories (groceries, low-cost household goods, restaurants, and so on), even though delivery services may take a distinct slice of their overall share. And in the future, mankind's ability to get rapid access to products and services electronically is likely to be even more widespread. Video rental stores are a new, successful *retail* phenomenon, but they are already threatened by the potential of *electronic* dial-a-movie services that will allow consumers to access the video libraries of cable companies in real time. Actual libraries may soon have the capacity to lend "books" out over computer networks in a similar fashion.

For products with both potential sources of supply, the future is significant competition between traditional retailing and electronic marketing. And a very important insight marketers should glean from the developments discussed above is that a large percentage of shopping trips either are or will soon be a matter of *choice* rather than of *necessity*. Consumers have the ability to limit significantly the percentage of their purchases bought by physically patronizing traditional retail establishments.

Overall, the impact of electronic patronage on retail viability and the economic and spatial structure of the retail industry is still uncertain. If the percentage of products purchased through actual physical patronage drops significantly (recalling what happened to the small, relationship-oriented retailers in the Industrial Age), what we now think of as spatial marketing is likely to wither as well. Such a scenario is not overly preposterous. Given the low levels of profitability among many retailers, it is relatively easy to conceive of expanded electronic marketing causing widespread failures among marginal retailers and an eventual inability of consumers to locate many products via local retail patronage. Therefore, if traditional retail establishments cannot learn to compete effectively with electronic and other distribution alternatives, they and the spatial marketing tenets that support them are in deep trouble.

Physical Patronage

In order to compete more effectively in an electronic era, retailers and other traditional marketers who must rely on physical patronage must concentrate on developing a set of benefits beyond those that distant competitors can provide. And it is here that insights from *exchange* can be of assistance. It is now agreed that the central focus of marketing should be exchange, a concept that essentially changes the way researchers and practitioners look at markets and marketers. The more restrictive view that marketing focuses on only exchanges of money for goods and services is giving way to a more inclusive view wherein marketers and their customers *exchange relationships*.

These relationships are sometimes-complex, hopefully long-term sets of behaviours wrapped around the exchanges of value among parties. And the key to understanding patronage and spatial marketing is understanding this notion of value. Consumers cannot be expected physically to patronize retail establishments unless shopping provides more overall value than staying home. So for retail suppliers essentially rooted in fixed locations, the key is to identify and provide elements of value not available from competing sources of supply.

Value can be derived from the outcome of exchange (what is physically received) as well as from the act of exchange, which includes the experiences and actions, both psychological and physical, of the patronage process. For the most part, it can be assumed that the outcomes of exchange (products) are available from either source. But in terms of the act of exchange, retailers have opportunities to provide significantly higher levels of value than electronic marketing. Kotler recognizes four classifications of value.

The first is configuration, which involves the attractiveness of the exchange experience. The ambience of atmosphere, boutique settings, music, lighting, and mood surroundings are hard to match in an electronic purchasing environment. Innovative retailers have the potential to exploit their configuration to enhance the value of physical patronage. Value can be also created by valuation, the act of putting attractive terms on the entity. Innovative uses of valuation can expose patrons to the multiple price point offerings and multiple brands more readily found in a retail setting, as well as to unexpected bargains, sale merchandise, short-term specials, end-of-aisle displays, and other "surprises."

Value can also be enhanced by *symbolization*, which involves the addition of symbolic significance to the entity. If traditional retailing can keep (or remake) physical shopping popular in and of itself, consumers will continue to patronize retail establishments in spite of any economic advantages of electronic marketing. Finally, value can be created by *facilitation*, by making it easier for the target audience to obtain the entity. Although it is becoming as easy to have access to products and impersonal services through electronic marketing as through retail marketing, the emotional side of facilitation is still tied heavily to physical patronage. The main reason for this tie is, of course, personal service.

Consumers who shop in person have the opportunity to experience levels of *personal service* not typically available via electronic shopping. Retail sales employees can provide significant amounts of attention ("serious sucking up," as Richard Gere refers to it in the movie "Pretty Woman"), as well as advice, assistance in evaluating alternatives, reassurance, immediacy of feedback, social interaction, and even the possibility of friendship. These personal services can significantly enhance nearly all aspects of the overall exchange experience for consumers. The problem is, of course, that a great deal of additional training may be required of retail sales personnel in order for them truly to become the "relationship marketers" that will make personal service work.

Another opportunity for the retail sector to enhance the value of its exchange relationships with customers revolves around advances in database technology. Recall that in the early days of mass production, relationships were the status quo and competitive advantage could only be generated with innovative products and merchandising. Now, in an era when products and merchandising are remarkably similar across marketers (both electronic and physical), it is possible for retailers to deepen the marketer-to-consumer relationship through the use of technology.

Where in the past there was not the means to keep up with masses of consumers, there now is. With advances in the technology of point-of-sale data capture and database management, customer records can yield a wealth of opportunity for effective, inexpensive relationship marketing. Each consumer can be treated individually, with built-in reminders of special dates, personal service based on preferences and past purchasing histories, feedback surveys, rewards for patronage, and so on. And with detailed knowledge of the individual comes information on what he or she wants, both in terms of products and in the relationship itself.

Persons interested in certain product lines can be identified cheaply and effectively and contacted automatically with personalized promotions. Specialized semi-catalogs can be built electronically and sent to only those customers. The customer base can be managed at the individual household level even when there are thousands of customers rather than only the few dozen that could be managed several decades ago when relationship marketing was still actively practiced. Overall, just as the new technologies of mass production led to the *decline* of personal relationships and individual-level marketing nearly a century ago, these newly arrived technologies have the potential to make the individual relationship re-emerge as a major weapon for generating competitive advantage among marketers.

Bringing in the Disenfranchised

Of course, so far we have been talking about consumers as a homogeneous group affected equally by the new technologies of electronic marketing and the retail responses to it. The truth is, of course, that not nearly all people will have access to the benefits of electronic marketing, and the same may be true for database marketing by retailers as well. There will be a large number of people disenfranchised by these new developments in the technology of shopping just as there were by the development of large merchandisers and malls.

Catalogs and other promotional materials are distributed to consumers on specific mailing lists and geographic databases. Consumers who pay cash or do not frequent specific stores on a regular basis may never get "flagged" in databases. Those without computers and on-line access software will have no way to shop electronically. Potential consumers who do not feel comfortable with the processes involved may have no clue how to buy over the telephone.

Therefore, another option for local retail merchants locked into fixed locations is to try and blend the best of both worlds for consumers who *physically patronize* their store. A very valuable retail service based on the opportunities for relationship marketing for the "disenfranchised" might be a shopping service. Since large numbers of consumers cannot know the latest information on products and the best sources for those new products, it is possible for well-trained relationship-oriented retail sales personnel to assist actively in the shopping process.

In this way, retailers can operate much more like brokers or purchasing agents for customers. The salesperson would help find out exactly what the consumer wants, assist them in deciding on its specifics, search through multiple potential sources of supply via real or electronic catalogs, and then order for them from the manufacturing source or from a central "ordering centre." Such a service blends the best of the technologies of electronic marketing and those of traditional retail patronage.

Redefining the Notion of Distance

If the retail sector does react innovatively to the threats of electronic marketing with expanded services, its basic survival should be assured. However, the *spatial* underpinnings of much of retail strategy are in question. It has traditionally been assumed that *distance* (and its associated elements of time and cost) plays one of the most important roles in influencing consumer shopping and patronage behaviour. But many of the notions of distance in this electronic age are already skewed.

For example, what *is* distance? It is certainly no longer just mileage or travel time. It is more likely that "distance" involves aspects of perception, familiarity, risk, effort, uncertainty, and so on in addition to (or perhaps even instead of) physical distance. And even when there are real distances involved, should these distances be measured from the consumers' residences, places of work, children's schools, or other origins? At the extreme, it can even be asked if distance should be measured as the number of feet between the direct-mail catalog and the telephone.

And what is the *cost* of distance? Much of spatial marketing is based on the linear cost notions of Central Place Theory, wherein a site located nearer a consumer has a better chance of being patronized. But what happens when the price of transportation drops significantly or becomes so skewed that traveling to a distant location provides the same or higher utility than staying nearby. Given the cost of transportation and parking and the risk (and cost) of muggings, for example, it may be "cheaper" for suburban New Yorkers or Los Angeles residents to fly to another city than to drive downtown for dinner and a movie. In addition, it is often cheaper in *reality* (and nearly as fast) to fly to a more distant destination in actual miles than a nearer one.

One thing that is certain is that the definition of distance needs to change. If a single "spatial" interaction model that can capture the competitive relationship between different electronic marketing and physical patronage alternatives is to be built, "distance" has to be measurable in comparable terms between the two. The answer appears to be, rather than physical distance, the use of a multifaceted variable *within which* distance can be compared directly to other similar constructs. Since throughout the history of mankind distance has always been a surrogate for *difficulty of access* rather than anything unique within itself, it appears that the "new" distance can be based on that construct. Even in telephone shopping, the more difficult the process the more the perceptual distance between supply and demand.

The major reason that it appears valuable to devote a great deal of research effort toward development of this construct is that individual choice theory does still appear to hold. The overall probability of consumer choice of a particular source of supply on a given purchasing occasion depends on the *value* to be derived from that source relative to the *value* available via *all* avenues of exchange for obtaining the desired good or service. These competing avenues include other retail stores, electronic shopping, and any other means of product/service access. If a *difficulty-of-access* construct can be developed, it can be utilized within a modeling context to study choice situations characterized by perceptual as well as actual distance, different levels of complexity, emotional and physical risks, delivery as well as patronage, and relationships as well as arm's length transactions.

Another important contribution of the *difficulty-of-access* notion as a composite within which distance can be studied is that, in the longer term, there almost has to be some degree of physical patronage involved in a marketer-consumer exchange relationship. Over dozens or hundreds of purchase occasions, and as competitors begin evening out in terms of the personal as well as impersonal services offered, actual physical distance has to figure into the side of the equation somewhere. It may not be the most important factor in a majority of choice situations, but if all other variables are equal it has the potential to cast the deciding vote for the destination of significant consumer expenditure dollars.

In the future, the major role of *physical distance* as we now think of it may be on the supply side of spatial marketing much more than the demand side. If distance is actually a surrogate for time and simplicity, then easy immediacy in the ability to supply becomes a very important aspect of distance. Marketing in this age of relationships will undoubtedly include taking the store's product and service selection to the consumer at his or her or its location, so deliveries may become a standard part of the marketing mix for relationship customers.

But much of spatial marketing may be devoted to balancing the costs of supplying products and services to individuals at their residences versus the costs of attempting to draw them from their homes to retail establishments through enhancing the value of physical patronage. In the final analysis, retail businesses may end up being located in the same spots under a supply-side paradigm as under a demand-side one. However, the decisions may revolve around the ability to *supply* consumers efficiently rather than the ability to pull them from their homes to the businesses.

In an economic system concentrating on mutually satisfying exchange relationships as the on of the marketing process, and assuming a continuation of the current direction of change in the technology of manufacturing and communications, the retail sector will continue to play a significant role in the distribution of goods and services through society. For that reason alone, spatial marketing will still have a significant place on the research agenda. On the other hand, demand-side spatial marketing may decline somewhat in importance relative to innovative supply-side, more logistics-oriented, spatial marketing.

For the provision of goods and services to the "franchised" (consumers fully linked into the technologies of electronic communication and shopping), especially, supply-side considerations will significantly outweigh those on the demand side. Since the technological changes currently diffusing through society appear to empower the individual consumer in the marketing process, key factors in marketer success will involve the development of innovative methods for making supply available to individual consumers when and where they wish to use or consume it.

On the demand side, major opportunities appear to revolve around retailing's ability to enhance the value of physical patronage, much of which will depend on the re-emergence of the personal relationship between retail marketer and consumer (through both personal service and electronic advances). A role for spatial marketing will of course be the tracking of the geographic development of the customer base, as well as identification and management of geographic pockets of consumers targeted as candidates for exchange relationships.

A great deal of research will need to be devoted to blending distance with the other elements of a difficulty-of-access construct, and then studying the trade-offs individual consumers make among distance, personal service, telephone access, and so on in the selection of marketing alternatives. Spatial marketers can make a unique contribution to this body of knowledge. Perhaps it is because geographic researchers realise that each consumer lives in his or her own location and thus faces a unique spatial choice situation; but spatial marketing has a strong research tradition concentrating on discrete choices by individual consumers. As such, spatial marketers can also play an important role in studying the extent to which the tenets of spatial marketing can be extended to distances that are not necessarily measurable in terms of physical mileage or driving time alone.

6

Process and Presentation of Training

TRAINING

Training is defined as the process of teaching the selected professional personnel how to improve and develop their skills and abilities. It is management's responsibility to form the selected personnel into a successful team. This is not an easy task, and not every manager can teach every capable person. The more defined the skill level of the incoming new professionals, the more effective the manager will be in training them in the skills necessary to be successful in the firm.

This training function really has two components: training for skills in the area of professional competence and training for skills in the area of marketing professional services. Most professional people coming into the firm have a basic level of knowledge in their technical area. This entry level can often be expanded in formal and informal workshops and skill-building training programmes. The type of training activity designed to improve technical knowledge is beyond the scope of this text. Just as most professional personnel are adequately trained in their area of technical expertise, many are not well trained in the area of marketing themselves, their products or professional services. The marketing of the person, and his products and services, is the focus of this section.

The recruiting captain and the professional service firm have invested a significant amount of time, money, and energy into the selection, assessment, and enlistment of the new professional person. The person is no longer another candidate. He has accepted a position at one of the six levels introduced in Chapter 1 and is now a member of the firm.

What next? Given the nature and very definition of a marketing-oriented professional service firm, the sales process is an important part of his introduction to and initial training within the firm. In fact, the overall effectiveness of the training that the new person receives will influence his productivity for some time to come. The indoctrination can largely determine if the time, money, and energy spent on the person to that point will be a reasonable investment or a misuse of company funds.

The recruiting captain usually assumes that he has hired a winner. If a team selection process has been used, then other members of the interviewing group and members of the firm should be inclined to feel the same way. However, the recruiting captain is the most enthusiastic about his new hire. He may feel that he has enlisted an experienced professional person (despite his level in the organization), who needs little or no coaching or training. Generally speaking, this is one of the most frequent and egregious assumptions that managers make about their new hires.

Professional personnel, even those joining a marketing-oriented firm, are people who are at least to a certain extent sales mongers. As such, they are subject to all sorts of aspirations and perceptions that will influence their job performance. They are better not thought of as pawns in a chess match, or as soldiers to be sent to the front line in order to shore up existing weakness in a given area—unless there is some prior consultation. They probably possess a considerable amount of knowledge, technical ability, and interpersonal skill. Depending on their behàviour style, they want/need a combination of security, status, recognition, information, and encouragement.

The more experienced sales-oriented professional service people will have the strongest faith in themselves. They are productive in technical and sales areas, and they believe that they are the key ingredient in their own history of success. Certainly they are interested in working with and for their new leaders. They joined the firm, in part, because they saw that the social environment would reward some of their basic needs. Other capable personnel will be less sure of their individual talents and be more willing to admit to the value of a strong team-orientation, and the reality that in a large-scale project more than enough credit is available for each contributing team member.

New personnel with a variety of behaviour styles will have to admit some dependence on their supervisors for technical support and motivation in the sales process. It is the new person's manager who ultimately provides him or her with the equipment to be successful in the firm. He may accomplish this by providing technical input or, alternatively, by running interference with his boss until the new person has established a foothold in an area of the business. However, whether it is widely recognized or not, the manager almost universally plays a significant role in the success of any new person. The manager who thinks first and foremost of his people and how best to develop them will frequently develop the strongest base of support both among immediate reports and also within the entire organization.

PROCESS

The new professional can be thought of as a precious commodity, and he needs to be treated as a unique person. His talents, skills, and abilities represent a marketing opportunity for the firm to capitalize on. In most cases, he needs to be developed in order for him and the firm to take full advantage of his talents. The new person has been influenced by a host of factors, including parents, teachers, peers, and previous employers. He has developed a certain behaviour style that will enable him to be effective in the marketplace. He should be made aware of his behaviour style and the inherent pluses and possible developmental needs that it includes. In essence, he needs to be trained in the firm's manner of business in order to reach his own potential.

Many new professionals join a firm after jumping a series of self-described hurdles. They have been interviewed, tested, evaluated, and screened. At a higher level, they have been wined and dined. They may have had expensive seats at a sports event, a night of theater, and even first-class air or private limousine travel. They may well have "bought" the image that firm was sending them during the recruiting process and actually believe they are as good as the firm evidently believes them to be. In some cases the reality of that first Monday morning in the office can be a rude awakening. Naturally, the honeymoon period of employment cannot last forever, but the recent hire should not be suddenly dropped off the face of civility and told to "start producing" the minute he walks in the door. He does need some consideration and facilitation to adjust to the job and the new environment.

This initial indoctrination period should be established on some form of mutual understanding and trust that will last over time. The indoctrination period is brief but serves as a transition from the madcap sense of desire that can surround the recruitment phase to the occasional drudgery that is part of the world of providing professional services. This process should be a positive one. The new hire should be politely welcomed to his new work environment, introduced to his working peers, given a detailed scope of his duties and expectations, and generally prepared for the training (formal or not) that is to follow.

The professional service person who demonstrates a high degree of either the entrepreneur or aggressive traits may resist formal sales training. He tends to think that he is already aware of most sales techniques and that training is largely a waste of time. Individuals who are marked by behaviour patterns of the sensitized and passive traits may feel that they are not likely to be especially effective in a sales role and therefore ask, "Why should they bother with formal training?" The overachievers and active individuals will accept the need for training. The overachiever will because it represents an opportunity to learn; the active will because he enjoys almost any opportunity to interact with others.

Finally, the compulsive person will accept the need for training as a matter of fact; although he may "logically" point out that he is not the best-suited person to receive the training. All the members of the professional staff need to learn that some form of sales training is for everyone. Sales are not a four-letter word (it's a five-letter word). This means that everyone should understand and accept that sales, new business and marketing are the lifeblood of the firm. The importance of sales, and a passing understanding of the basic building blocks of the sales process, should be required of everyone.

By analogy, it is recognized that everyone in the U.S. military is trained in the techniques of basic combat. They may later receive additional training in mechanics, administration, finance, or hundreds of other specialized topics. But everyone receives basic combat training—the process of holding, firing, and cleaning a weapon—because the basic function of any military force is to be prepared for combat. In the same way, the basic function of any professional service firm is to provide a service to clients. Ultimately, this service includes a sales component.

In order to reach his full potential, the new person must respect the company, its products and services, its marketing philosophy, and its approach to working with clients. Typically, of most importance is the relationship the professional person has with his sales superior. The person should be convinced of his manager's interest in him and his manager's desire and drive to help him to become successful. The person will listen to a manager who has done it successfully himself. He must admire the skill set of the manager (although he does not have to emulate it) and his ability to effectively sell business for the firm.

The new professional person and the manager do not necessarily have to form a relationship of personal interest, but the new person must respect the sales ability of his boss. Some of the most likeable bosses demonstrate an active-passive behaviour style. This means that they are warm, personable, likeable, and well intentioned. They readily commiserate with their subordinates, and quickly communicate an understanding of the frustrations of the sales process. Unfortunately, these people frequently do not make for successful superiors when they are required to lead a sales effort. They are simply too soft emotionally. They are neither sufficiently disciplined, competitive, nor aggressive to be successful in a sales leadership role.

By contrast, the active-aggressive supervisor and the over achiever entrepreneur supervisor are less likely to be considered great interpersonal friends by their subordinates, but they often are the most successful sales leaders. They are well respected by their subordinates to a certain extent because they lead by example and force the new professional person to the point of sale. At this juncture, they insist on well-planned and persuasive sales presentations.

The active-aggressive manager is personable, well meaning, and interpersonally engaging. He is also dynamic, driven, and socially aggressive. He can be forceful, but he is not autocratic without good reason. He would never require a subordinate to do anything in the sales process that he has not already done many times himself. In some ways, the active-aggressive manager can be compared to an outspoken, control-oriented but highly successful athletic coach. In his own way, he is highly charismatic and inspirational, and he achieves positive results from his subordinates because they follow his instructions.

He may not realise his potential, but he manages his staff to achieve a level of success. Sometimes this level is beyond what could rationally be expected of the talent level of the people on his team. His motto is composed of two undeniable, irrevocable ideas, and he frequently repeats them in a myriad of different ways. They were first used by the real-life and legendary Coach Vince Lombardi. They are: "Believe in me "and" Do as I say."

The overachiever-entrepreneur manager also achieves positive results with his subordinates. He attains his goals with a slightly different emphasis. He is a highly self-disciplined person who is eager to achieve a position of importance, monetary wealth, and social status within the corporate hierarchy. Frequently he is socially polished to the point of being considered "smooth" and gracious. At the same time he is highly competitive, driven, and goal directed.

Such managers resemble the fictional hero James Bond. They read people (subordinates, peers, and clients) with equal ease and are very adroit in communicating a sense of professional concern that is directed at each member of the audience. They are persuasive and convincing sales personnel.

The overachiever-entrepreneur manager consciously recruits personnel in his own image and entices his subordinates to work harder and smarter in order to achieve the "good life"—a life style that the manager readily demonstrates. These managers achieve their goals by recruiting and training a small cadre of professional service "commandos" who are devoted to the manager and aspire to walk in his footsteps. In turn, the manager is dedicated to his most productive people, who sometimes reach positions of influence, power, and monetary success. These managers function as role models for new recruits.

Both the active-aggressive and overachiever-entrepreneur managers demonstrate a definable form of social and interpersonal charisma that is effective with the types of people they recruit. They mold the new professional people into a formidable unit and achieve success with them.

These types of managers are leaders and have proven records of success. They teach and reinforce that whatever "selling skills" the new professional has been taught in the classroom are applicable to the field. They consciously build on what the person knows or believes and shape his behaviour pattern into one that can effectively market professional services.

SALES KNOWLEDGE REQUIREMENT

The new professional person comes to the firm with an education, some training, and work experience that is at least technically applicable to the task at hand. However, there is almost always a gap of some size between what the new person already knows and what he has to learn in order to be effective with the new company, and this is true at all levels in the firm. The person is new to the firm and probably new to the products as well. He needs to be become aware of his specific role in the sales process and with respect to his clients and co-workers. He needs to understand the functions he is expected to perform and the environment in which he will be working. In general, the new person must gain some knowledge of the company in four areas: products and services, business environment, history and policies, and operations and procedures.

Products and Services

It is often surprising to many new professional service personnel that they know more about the firm's products and services than the clients do. However, the fear of not knowing something that a client may ask about will spur the person to study and thoroughly understand the firm's portfolio of products and services. At a minimum, he should be aware of every product that he is representing.

Naturally he needs to be aware of the firm's other products, but he needs to know his own especially well. He should be drilled on why the product has the given features it does and what advantages and benefits the product potentially has for the client. The new professional person should also be prepared to discuss the product's limitations and possible failures. He should have a rough idea about pricing, but on this issue he should defer to more experienced staff. Alternatively, he can cite the need to check with the home office or prepare a proposal, including cost estimates, for a given product or service.

Business Environment

The professional person should be aware of his competitors. He is not interested in dragging down the qualifications or abilities of these people, but he certainly is aware of their products, services, and methods of operation. He must understand the competitive advantages of other products, and, although professional services are seldom bought on the basis of price alone, this is a factor that will be especially considered in recessionary times. He should know the type of success the competitors are having in the marketplace and have some understanding of why.

The next set of business (environmental) conditions that the new person must understand are the easiest to state but the hardest to learn. The professional needs to learn the client's existing needs and whether they are currently being satisfied by some other service firm. Almost all professionals can improve their ability in this area, although some people seem to have a more natural talent for acquiring these skills, principally, the overachiever, entrepreneur, active, and aggressive. While they demonstrate the most natural ability for learning these skills, every professional should be encouraged to improve in this area.

New employees also need to understand the both overt and subtle influences that force clients to change, including changing socio-economic lifestyles, national pressures, technological advances, regulatory influences, and the general business environment. They also need to understand the subtle pressures that move the client toward him or another provider of professional services. Finally, to the extent possible, they should steer the client toward making the best possible decision.

History and Policies

A thorough knowledge of the company's history and an understanding of the philosophy behind its policies will enable the new person to successfully represent the company. In essence, he needs to be grounded in the tradition of why the company acts the way it does, what policies and general rules the company is especially proud of, and which aspects of the company can be used repeatedly as part of a marketing campaign or in an individual sales presentation. He should also be able to defend any policy that runs contrary to the industry trend and make a reasonable case about why the company implemented and maintains the policy. He does not necessarily have to agree with the policy, but he should be able to provide a rational explanation for it.

Operations and Procedures

This is an important segment of the professional person's identity as he markets the firm's products. He should be able to discuss the other critical departments in the organization, as well as the overall administrative and research functions. It is vital to be aware of any client satisfaction measures that the company uses, and the professional should readily endorse the client's use of these "hot lines" to inform senior management of any problems resulting from his oversights. He should not be afraid to lay out the company structure and defend it as a generally sound, but ultimately reasonable, approach to doing business.

SALES SKILL REQUIREMENT

Once the new professional person has learned the basic information about the firm and its products, services, environment, and approach, then he is ready to develop his sales skills. Knowledge can be gained by reading a book at night by oneself. Skills, and in particular sales skills, require practice. Much like the secret to owning successful property is location, so a significant part of developing successful selling skills is practice. This means being with clients or in realistic yet simulated conditions.

Learning sales skills can be compared to learning an athletic skill. The more natural talent a person possesses, the better he will perform. However, the practice of an athletic routine does significantly improve almost anyone's performance. In the same way, practice selling (with appropriate coaching) will almost certainly improve performance. Thus, the professional person's manager should have sales experience and habits that have been proven successful. The person who enjoys participation in an athletic event "for the fun of it," will practice as long as he is enjoying himself. Similarly, the professional person will practice his sales skills as long as he feels he is learning some valuable skills. The key is to impress upon the new professional person that sales is everybody's business and that it is an integral part of his job function.

Many less experienced professional people do not readily understand the need for sales activity and the absolute necessity of cultivating new accounts. However, once they are informed of the reality of life in a professional service firm, they are more willing to adopt a proactive approach to selling the firm's products and services. This understanding will not, however, readily enable them to deal with rejection of their sales presentations. This will be frustrating, demeaning, and in some cases embarrassing for them. They may begin to see themselves as less professional because they are required to sell and also act in a professional advice-giving mode.

This is a problem that every manager must face in developing new professional people. In essence, the manager must understand that whatever sales ability the professional person lacks, the manager must compensate for. So managers should be encouraged to select personnel who demonstrate at least some sales ability.

Short of identifying the personnel who obviously possess the traits necessary to be successful in sales, the manager should focus heavily on the degree to which the new person demonstrates the overachiever trait. In sufficient amounts, this trait will enable the new professional person who is not naturally talented in the sales area to be much more effective than might otherwise have been thought possible. If the person is sufficiently self-disciplined, he will force himself to take on certain sales responsibilities and will perform in an effective manner.

A high degree of the overachiever trait will increase the likelihood of success. However, other structural variables can also facilitate the pattern of success. The sales training sequence should be designed to maximize the professional person's positive experiences. Initially, he should accompany other professionals on sales calls, where his function is to observe, take notes, and politely blend into the atmosphere. Following the sales call, he is included in any debriefing, but he is not expected to make presentations for some time. The purpose of these observation calls is to avoid an early knockout punch to the new professional's ego, causing him to decide that professional services are not his preferred work environment.

The new person must learn to apply some basic selling techniques. These methods can be learned in one of many selling courses. The value of participating in at least one such basic course is that the professional person (who may have no exposure or training in sales per se) will be exposed to and should learn an outline of the sales process. Sales are no more magical than learning any other skill and many basic courses provide an outline that includes some valuable tools to apply in the sales process.

In time, the professional person must learn to develop an instinct for a selling opportunity. He must be able to perceive and understand the client's potential problematic issues. He will have to develop a sense of polite probing to discover facts that will enable him to bring client needs to the surface and then provide a valid solution to the problems that exist. A whole variety of skills will have to be developed. It will not be easy, and the process will require time. One of the most important generic skills is the ability to listen effectively, understand, and react appropriately when clients are directly expressing their needs. Perhaps the most critical aspect of the professional's learning curve is self-criticism. The professional person must be able to learn from his experiences.

The best training method is selling itself. The more resourceful people will learn sales skills early in their career. However, the process cannot be forced. Only a small part of the necessary sales methods can be learned by reading and contemplating the process. In preparation for "live" sales presentations, casework, role plays, artificial games, and pretend sessions can be used. Sales calls can be rehearsed in one's head, but until they are played out in front of an audience, little actual learning will take place. The new person must watch the experienced professional and see what he has been taught in the classroom result in increased sales.

The new person has to see the experienced professional plan, propose, discuss, and close a deal successfully. He has to see and experience all the steps of the sales process. He has to interact with real people, experience live risk, and celebrate victory or plan the next approach. Perhaps most importantly, he has to learn from each experience. For this reason, the field training has to be complemented by information and techniques taught in the classroom. The field has to be an extension of the practice sessions with the field training the most critical aspect of the process.

The experienced professional readily understands the necessity for a coaching session after each presentation. The material covered should be outlined in advance and reviewed in a systematic fashion. It is not an opportunity to laugh over a clever remark, or to comment on the impossibility of meeting a certain client's demands. This should be a disciplined and detailed review of the meeting from a sales perspective. The experienced person should describe how what he did or said relates to material covered in the classroom. He should note critical or atypical incidents to highlight certain behaviours or methods that can be used. He should specifically explain which events in the course of the meeting went right and which events detoured. This is not a fault-finding session but an opportunity to objectively discuss a meeting from a learning perspective and to initially prepare for the next presentation.

Once the new person has sat through enough meetings, held the flip chart, and provided some ancillary information in a meeting, it will be his turn to actually propose a meeting agenda and head the client presentation. In this case, the roles are reversed. During a meeting the experienced professional will be taking notes, nodding appropriately, and contributing a tactical "yes, I see" at the right time. Again, this presentation will be followed by an in-depth review of the presentation and the experienced professional will provide feedback to the new person.

In these situations some experienced professionals are better at providing feedback than others. It may be somewhat surprising that the entrepreneur and aggressive behaviour types are typically the least patient in providing the kind of insightful and detailed information that is most needed for improvement. These people will candidly say they do not have time to teach "everybody everything." They will purposely seek out individuals like themselves who possess a more competitive, impatient, and risk-prone behaviour style. Such people are well matched to the entrepreneur and aggressive managers because they are less likely to readily accept criticism.

In contrast, the active-passive manager is often the most considerate and insightful. He takes the time to offer corrections and suggestions to new professional personnel in learning to sell services. These managers are perceptive, compassionate, and genuinely concerned about building a team approach to selling. Hence, they will make themselves available to teach others. They project a selling style that is effective, but they can lack the instinct to go for a close, which their entrepreneur and aggressive peers may have.

This method of joint client-calls can be expensive. It requires the time of the new and experienced professional. However, it is the best way to ensure that the new person learns the process. The new person may be reluctant to "perform" in front of the more experienced person—he is afraid of performing poorly and anticipates being the subject of harsh criticism. However, this sense of anxiety should also spur the new person to be prepared and to diligently follow whatever script he has been given. The supervisory review should emphasize the positive aspects of the new person's presentation.

Countless studies point out that more learning takes place with positive rather than negative reinforcement. The experience should be seen as positive by the person, even if many corrections have to be made. If the new person continuously fails to modify his behaviour or to show signs of responding to the experienced person's comments, then this should be addressed as an attitude issue. However, whenever possible the new person should be given positive reinforcement in a developmental fashion.

Most sales training programmes are little more than a road map that the new professional will either use or not, depending on his perception of the usefulness of the map. Some people will study the map assiduously and seldom, if ever, deviate from its planned route. They will see it as the answer to their needs. Typically, these people will show a large portion of the passive trait in their behaviour style. They will abide by the rules and carefully follow any instructions, but they will seldom achieve spectacular results. They will, at best, approach their sales quota but seldom actually attain or surpass it. These same people may be inclined to "blame" the map, or the sales training programme, if they are not successful in arriving on time at their sales quota.

Other people will see the sales training map as a useful overall guideline, but only that. They tend to improvise and adapt the sales methods being taught to their own behaviour style and perceptions. Typically, these people show behaviour styles of the entrepreneur or aggressive. If these people achieve success, they are inclined to credit primarily themselves, with some backhanded reference to the initial training they may have received. If not successful, these same people are the most likely to blame the economy, the home office, or lack of any really good training. With reference to the training, they will indicate that it was fine as far as it went, but it just did not cover enough of the basics and left the bulk of the learning up to them. They could only acquire learning through direct experience, and since the economy (or whatever other outside source) was so bad, they could not achieve any real success in the sales process.

The person characterized by the active behaviour style will generally endorse the rules and methods presented in the training programme and will try to follow them in his presentations. However, he is so naturally energetic that he can become easily sidetracked and follow an alternative method that is perhaps, surprisingly, equally successful. If prompted, he will readily endorse the training methods prescribed by the company and will try to teach them to others. However, he will also include a significant portion of individual interpretation of the guidelines provided in the manual.

The key to maximizing the performance of individuals with each of these behaviour types is to measure the degree to which each possesses the overachiever trait. To the extent that they possess sufficient discipline, they can be allowed to function independently. However, most people, even with a reasonable amount of the overachiever trait, will need supervision to be fully successful in any sales training programme. Supervision of some kind is required to ensure that the individuals do not deviate too far from the material in the sales training programme.

An efficient way to do this is to develop a highly standardized plan and to ensure that the people who use it and supervise it possess a high degree of the overachiever behaviour style. Without this trait, the plan will be interpreted and modified according to the whims of those using and supervising it. For example, the entrepreneur is a highly competitive individual who sees himself operating as a lone wolf. He likes to achieve *his* goals *his* way, and because of his self-defined importance and need for independence, he may resent having to follow a set programme.

The active person can be something of an exhibitionist at heart. He is likely to improvise and increase his personal involvement with the presentation and with the client personally. He likes to be friendly and personable, so he may be inclined to overplay his special role in the presentation, albeit in a thoroughly friendly and personable manner. He will tend to draw himself to centre stage and talk when perhaps he should be listening.

The aggressive person is sometimes highly control oriented. He may be inclined to push too soon for the close, when the client is still in a deciding mode.

The aggressive person has an inherent dislike for ambiguity and plans ad infinitum to eliminate any possible escape from his sales presentation. He will not easily take "no" for an answer, and he is eager to get to "yes," sometimes before the client is ready to commit to any answer. Although people who demonstrate these three behaviour styles-entrepreneur, active, and aggressive—are in many ways very capable sales personnel, they need to also show a high degree of the overachiever, or to be effectively controlled by their supervisors or the environment.

When used consistently, the standardization will benefit everyone, including the new professional person, the experienced person who is beginning to expand his sales responsibilities for the first time, and the organization as a whole. This standardization is designed to be used as a track, with established boundaries for the professional person to tread. Some people will find it restrictive and may rebel against it. However, if properly drawn and explained, no one should find it overly restrictive, and if the overall company benefits from such a programme, it will be to the advantage of all who use it.

Most professional people, even those experienced in sales, prefer having at least an outline to use as a guideline when making a presentation. In some ways, not having this aid is like going into a meeting without an agenda. It can be done successfully, but most clients and consultants feel better prepared and more at ease when they can share an outline at the beginning of the meeting. In the same way, if the professional person has a sales outline in his head, he is better prepared to lead a discussion to the point where he wants to go.

CLIENT PRESENTATION

Training is an ongoing process for the professional service person. A good part of that training takes place in front of different clients, explaining and presenting the firm's products and services. The client presentation includes everything that occurs while in front of the client. It is sometimes described as the "message segment" of the meeting. A positive presentation should persuade the client to move forward with the process. It should reinforce the client's perception that he needs to change some existing plan or process in his organization, and the product presented in this meeting may be the vehicle to achieve that end.

The presentation should diplomatically help the client to see the need for change and motivate him to take the first steps in that process. Ideally, the presentation should anticipate the client's objections, and at least include a segment that will allow the objections to be answered. The presentation should be fact based and well researched. Moreover, it must to be prepared for the individual needs of the client in the room, that is, the vocabulary and style of the material should be geared to the needs and expectations of the audience.

The actual success of a presentation is not always easy to determine, especially in marketing professional services. If a presentation is made and a client agrees on the spot to use the product or service, then the presentation may be considered successful. However, this does not always happen. The client who is apparently very interested may not follow through and actually purchase the product. Conversely, other clients who appear only mildly interested may in time indicate that a given presentation was key in their deciding to move ahead with the proposed project.

How important is the style of presentation? An old but generally established adage concerning this issue goes something like, "The sale is *made* in the first five minutes in front of the prospect, and *lost* in the last five." Can the overall effectiveness of a presentation style or content be touted to be better than others? In some sense yes, depending on the client, the product, and the presentation.

PRESENTATION OBJECTIVES

Some time ago, the primary and perhaps the only purpose of the presentation was to convince the client to buy the product or service. However, this single-purpose approach has changed. The forces that motivated this change are subtle, but they include more sophisticated clients, wiser professionals, and a new marketplace. Information is more transportable now, and clients are insisting on information meetings as a precursor to a sales presentation, and professional consultants are obliging.

Clients expect consultants to candidly inform them about a variety of topics relevant to the marketplace in general and about the details of their particular product. However, increasingly they will not accept the latter without the former. The client wants the professional firm to present its product within a competitive framework, elaborate on the societal effects it may have, and to directly answer ethical considerations about the use and promotion of the product (although research shows that cost alone is frequently a secondary consideration when purchasing professional services).

The professional service firm also has some expectations about the presentation. The presentation material and style should facilitate the growth and development of the consultant providing the information, while inspiring the client to positive actions. Thus, the format and style of the presentation will influence the effectiveness of the presenter. The author conducted a research project on this subject using a number of firms of varying sizes and offering different products and services in a range of unique markets. The research focused on satisfying the needs of the clients, who were the audience during the presentation, and the consultants who presented the material.

The objectives were twofold. Client objectives included:

1. Optimal use of time
2. Ethical and complete content

3. Accurate and knowledgeable
4. Match company needs
5. Anticipate objections

The professional service firm objectives concerning a presentation included:

1. Persuade client
2. Increase consultant's acceptance
3. Increase firm's credibility
4. Assist in consultant supervision
5. Assist in consultant training

A continuous debate exists over which presentation method is most effective for certain products, clients, and consultants. Many people believe that the method that works for them should therefore be used by everybody. Many people can recite famous stories within their industry when the outline for a significant proposal was drawn on and presented from a napkin at a lunch counter. Others can tell about multi-media, many-coloured, simulcast presentations that were months in planning, expensive to produce, and complete failures in terms of additional business. Both extremes are memorable precisely because they are so rare. Most of the time, a presentation style can be configured that is appropriate for the meeting place, time, and audience.

The single differentiating characteristic among presentations is its *structure.* A presentation should not be considered "canned" or "not canned." Neither should it be perceived as "structured" or "not structured." These two examples present bipolar differences on a continuum with many intervening degrees between them. For the sake of the research conducted, it was decided to use a five step continuum ranging from completely structured to completely unstructured.

These points were defined as follows:

1. Completely Structured. The use of technology dominated the sales presentation. Movies, slide shows

(some with coordinated sound), video (some computer based) and even film strips were used as the predominant means of explaining the product/service. The consultant was largely relegated to the function of technology set-up person and secondarily to answer simple questions not covered by presentation.

2. Partially Structured. The consultant leans heavily on prepared material. He flips through a book (often with colour graphs and charts), uses a prepared flip chart, or relies on pre-printed brochures. The function of the consultant is to explain, from looking at the prepared material, how a given product/service can increase the client's efficiency, and so forth.
3. Quasi Structured. The consultant delivers an obviously memorized speech. He presents the material in a direct and somewhat parrot-like fashion. If interrupted, he can lose his concentration and be forced to repeat a portion of the material in order to remember his place in the delivery sequence. In this scenario, visual aids may or may not be used.
4. Non-structured. The consultant is allowed complete flexibility, primarily in the area of wording. He delivers his message in a way that he decides is optimal for the situation. He follows a general outline and may speak from a single-sheet discussion outline, but he appears to be more spontaneous. Again, visual aids are optimal, but, if utilized, they play a secondary role to the interpersonal and presentation skills of the consultant.
5. Completely Unstructured. The consultant is literally free to describe the product/service. He may describe the material in any way that he sees best. He is independent and not required to follow any set script or outline. For the most part, the consultant varies his approach for each client setting and might describe his approach as customised to the needs of the client as he sees them.

It probably comes as no surprise that most professional firms use a combination of two or even three presentation styles. However, the higher a person progresses in the firm, the more likely he is to use *styles four or five*. Less experienced professional personnel are much more likely to use highly structured presentation styles. More experienced, higher level, and more successful professional people will use the less structured presentation styles.

In terms of the person's behaviour style and preferred presentation style, the higher the passive and/or sensitized traits in the person, the more likely he or she is to use the structured presentation styles. Some sensitized and passive people who have reached senior levels in the firm were "successful" in marketing their products and services. However, it should be noted that these traits were not as common as the entrepreneur, active, and aggressive traits in senior marketing-oriented personnel. The people who are high on the sensitized and passive traits are less sure of their interpersonal presentation skills and are more likely to rely on prepared material to communicate their ideas than to use their own interpersonal skills. When asked about this preference, many of the passive and sensitized people made such comments as:

"Look, the company has gone to a great deal of expense, probably including a fair amount of research about this, and they have prepared these materials. Since the company has prepared them, I feel semi-obligated to use them. Why else did the company invest in them? I am a company person. I believe in following the guidelines. And I am happy to use the material. Besides, it makes it a lot easier to speak from existing material. I don't have to waste a lot of time explaining myself and the terms I use."

In direct contrast to this preference for adopting the ready-made material, the people most likely to not use the material are those whose behaviour patterns included a high degree of the entrepreneur, active, and aggressive traits. At the lower levels of the professional firm, people with these traits resisted using the structured approach more than people with other behaviour trait patterns, although they generally used the material because they were told to do so. At the higher levels of the organization, these people resisted and did not use the structured approach. They saw themselves as too independent, original, and clever to use the prepared material. Comments from these people included the following:

"Don't get me wrong, that stuff from the home office is good as far as it goes, but it is just too confining for my clients. I know my clients, and they know me. We know what to expect from each other. If I brought out some canned looking material, they would begin to think that I had lost it. Again, don't get me wrong. The material is good as far at it goes, but I have to use it as a base and then go beyond what they say is good. Finally, I get my results. I invoice my quota of sales hours every month, and so they leave me alone."

It is interesting to note the response of the managers to the material with respect to their subordinates. The managers with the more aggressive behaviour styles were the most insistent that their subordinates at the lower levels use the more structured approaches, although they, at the higher levels, refused to use the structured approach. When queried about this apparently inconsistent practice, these managers suggested that they wanted to be sure that the lower-level people followed a consistent pattern. They suspected that the "better" fellow aggressive-type professionals at the lower ranks would resent it, but then they could change once they passed through this phase of their training.

By comparison, the entrepreneur managers indicated that they "couldn't care less what presentation style their underlings used . . . as long as they brought in the business." Finally, the managers who were typified by the active behaviour style felt they should suggest that their subordinates use the prescribed structured methods, but that they would not insist on it. A typical comment from one such manager was, "In all honesty, I can't make them follow some rule that I ignored when I was in that position. Besides a 'canned' presentation doesn't fit people like them (people with active behaviour styles). Besides, it really is only a guideline, not a firm rule."

The ten objectives listed earlier, equally divided into issues that are important to the client and the service firm, along with the five-point rating scale of the degree of structure in the presentation, were given to a number of professional service firm executives. These executives were experienced in buying and marketing professional services. They were considered excellent judges of what is important to potential clients, since they purchased professional services from other firms. The others were considered knowledgeable about what is important in developing professional service personnel, since they held positions as senior-level marketing officers in professional service firms.

The contents of this table provide some useful insights into how to best approach some clients with specific presentation styles. Of course, these generalizations cannot be applied to every situation, but they are insightful and can serve as starting points for further discussion and experimentation.

Each professional person has to use the methods that are most effective for him or her in the situation at hand, but to ignore even these general research findings, is to face the possibility that the professional person is not taking the best approach for a given presentation.

If the presentation is using the client's time in an optimal fashion (objective 1), then the unstructured approach receives the highest rating. The unstructured approach is seen as having sufficient flexibility and adaptability built into it, so that the presenter can slow or speed the presentation to fit the implied or stated needs of the audience. However, the more highly structured approaches also score high in this objective, and this implies that either the audience wants an "experienced" person, who knows how to read the audience and react with appropriate behaviour, or the audience prefers a machine that will have a definite time frame to provide its information.

In terms of telling a complete, accurate, and knowledgeable story (objectives 2 and 3), the more structured approaches score the highest rankings. Again, the audience seems to indicate that it trusts a fully automated presentation, one that is presumably prepared by a home office committee that is not likely to deliberately risk providing false or misleading information. This does not imply that the audience does not trust the professional person, but the comparatively low scores for the completely unstructured approach suggest that these types of presentations may appear to be more impulsive than factual. Hence the audience is less likely to fully accept everything these unstructured presentations include.

When the need arises to tell the same story repeatedly, the highly structured approach is probably the best alternative. These situations probably occur most often when the alternatives are very simple, the material can be fully explained, and a decision to purchase or not is made following the one presentation. However, if interruptions, questions, and digressions are a part of the presentation, then these structured methods will prove frustrating to both the audience and the presenter.

If the main purpose of the presentation is to meet the stated or implied needs of the company, to anticipate objections, and generally persuade the client to the presenter's way of thinking (objectives 4 and 5), then the less structured methods are preferred. This suggests that when the experienced professional service person can draw on his own experiences, politely rebut and redirect conversations in the direction of his choosing, and focus the attention of the meeting in a manner that he can more directly control, then he will be more successful.

These numbers, and subsequent interview discussions, suggest that the executives believe that the more experienced professional person should be allowed to use *some* form of structured input (overheads, flip chart, audio-visual, etc.), but he should also then quickly and firmly shift from this prepared presentation form to a more dynamic session. The portion of the presentation that is standardized will provide the initial impression that some home-office involvement and stability is included in the process, and that the person delivering the material possesses the intelligence, discipline, and maturity to think independently and adapt the material to the needs of the client. This notion is reinforced by reviewing the numbers for the partially and quasi-structured presentation styles. It appears that memorized and obviously staged presentations are not nearly so effective.

It is interesting to note further that when the professional person is given the most freedom, he, and the firm he represents, is accepted more and is perceived to be the most credible (objectives 7 and 8). Again, this may result from the fact that the most successful and experienced consultants are likely to present their material using this method. But the association is undeniable. The better consultants depend less on technical props and are perceived to be more credible.

It is not too surprising that the more structured approaches are ranked more effective in training the consultant (objectives 9 and 10), although the unstructured approach is the highest ranked of all the categories. The unstructured approach, one that relies on interaction, reading clients, and showing adaptability and professional responsibility, seems to be the highest-rated category overall. However, the *completely* unstructured approach is almost too good to be true.

Perhaps in the hands of an exceptionally experienced, mature, and refined professional person, this method is superior. However, too many professional people believe that they have achieved this status, when that perception is not shared by their audience. The members of the audience prefer some structure and want to see the presenter follow some outline, so that they, too, can monitor and feel that they are involved in a joint discussion. The perception that they are being fed a canned speech, or that they are merely bystanders as someone directs the conversation totally at his whim, is generally not as effective as a more interactive and prepared presentation.

7

Exchange for Resale and Exchange

THE DIFFERENCE

As we explore the terrain of marketing exchange we usually find a reseller standing in the path of production and consumption. The reseller usually serves as the vehicle by which the product passes from producer to consumer or user; hence the term channel. To view the reseller as merely a selling agent for manufacturers or a purchasing agent for consumers would unjustly distort the value of resale markets and the contribution resale exchange makes to the marketing process.

The purpose of this chapter is to give resale exchange its own identity in the realm of marketing and exchange relationships. To begin, resale marketing is defined as the assigning of extrinsic value to products and services for the purpose of facilitating a subsequent market exchange. We underscore the word "extrinsic" because resale value exists in the potential for exchange rather than the potential for use (i.e., intrinsic value).

That is, value is obtained by enhancing one's own assorted offering through market exchange. The distinction between extrinsic and intrinsic value takes on additional when we consider that resale intermediaries exist because manufacturers have chosen to buy access to markets rather than perform the necessary functions themselves.

In charting the course of resale exchange, we borrow from the literature of sister disciplines as well as our own better to understand "sales between parties within a channel" and "sales between entities who are not part of a common channel . . . end users." We begin by looking at the threads resale exchange and consumer exchange share. This includes defining resale exchange in terms of extrinsic value and establishing a preliminary set of exchange conditions.

Next, we explore the differences between resale and consumer exchange. Here, we view both exchange markets from the perspective of dependence, and notice that the intent of the exchange and the importance placed on exchange elements differ between markets. Then the discussion is extended to include network effects and to attend to conditions that foster and hinder exchange relationships. The final section questions how far our discipline has come and encourages others to plot new ground.

EXCHANGE

Resale exchange is a bilateral system for distributing value where at least two parties respond toward each other as if there were some supporting third party. At a minimum resale exchange includes a supplier and a reseller, with the consumer (or end user) driving the exchange. That is, the anticipated end-sale between the "channel" and the consumer drives the earlier channel exchanges.

Although the terms *supplier* and *consumer/end user* warrant little clarification, the *reseller*, as a channel intermediary, can perform a number of roles. Kumar, Stern and Achrol define reseller as "any channel intermediary — a franchisee providing a service or product to end users, an independent middleman purchasing products for resale to business or household end users, or a broker/agent selling the supplier's product on an extended contract basis. This discussion is directed toward independent middlemen purchasing products and services for resale to business or household end users.

Foundation of Resale Exchange

Exchange to resale markets is built on the same exchange foundation created for consumer markets. From a dyadic perspective, the goal-seeking supplier and the goal-seeking reseller represent the core exchange units, with their interdependence serving as the mediating force. Kotler set of exchange conditions is applicable to resale exchange as well as consumer exchange. Each has something of value to offer and each is capable of delivery.

Interactions between the parties are directed toward communicating the value and availability of the offering, providing each with the ability to anticipate and rank exchange outcomes. Although dealing with the other is believed to be appropriate and desirable, each party is free to accept or reject the offer. Houston and Gassenheimer note that although Kotler's set of conditions is necessary for exchange, they are not sufficient. The "expectation" that the exchange will strengthen each party's assortment is also necessary.

In consumer exchange, we look to Alderson "law of exchange" as the completion to conditions sufficient for exchange. Yet, the inclusion of an intervening third party (i.e., consumer) precludes Alderson's law from sufficing in resale markets. Once third-party influence intrudes, we can no longer assume that just because elements in each party's assortment are different and exchangeable, and the potency of each party's assortment is increased by adding and dropping elements, respectively, that an exchange will result in the hoped-for consequence. Success is contingent on the willingness of the consumer to use this channel to fulfill its needs.

This third-party influence also distinguishes exchange transactions from exchange relationships. For an exchange transaction to occur within the channel there must be a perception or belief that there is a final customer willing to purchase the product; it is the expectation of the end-buyer's willingness and not the actual willingness that is necessary for exchange to occur.

The exchange relationship is dependent on an actual demonstrated willingness. Therefore, it is the chain of actual subsequent exchange events of the consumer market that establishes exchange relationships in the resale market. Because of the demands of the consumer market, resellers are dependent on suppliers for their survival. Although suppliers are necessary for reseller survival, suppliers aren't sufficient. Based on dependency theory: The dependence of actor A upon actor B is:

1. Directly proportional to A's motivational investment in goals mediated by B and
2. Inversely proportional to the availability of these goals to A outside the A-B relations.

Even with access to a source of suppliers, resellers are also dependent on consumers. Therefore, in resale markets: The dependence of actor A (reseller) upon actor(s) B (and C) (supplier and consumer) is:

1. Directly proportional to A's motivational investment in goals mediated by B (and C) and
2. Inversely proportional to the availability of these goals to A outside the A-B (and the A-C) relations.

Although Emerson has established a foundation for consumer exchange and we have extended it to resale exchange, a further investigation of each entity's dependence is needed to understand the differences between resale and consumer exchange.

Resale and Consumer Exchange

Exchange is "the voluntary transfer of value from one entity's assortment to another's assortment for the purpose of enhancing the potency of one's own assortment". This definition is applicable to consumer exchange as well as resale exchange with potency being the linchpin. Potency defines the potential intrinsic and/or extrinsic value of the exchange regardless of the market being served.

The difference between resale and consumer exchange, therefore, is not so much exchange outcomes (because we can interpret all exchange outcomes in the generic term, value), but rather the value placed on the elements comprising each party's utility function. Or better yet, the source of the value. We spoke before about intrinsic and extrinsic value. For consumer markets, the product's intrinsic and extrinsic value is derived directly from the element itself. For resale markets, the product's value is extrinsic since value is derived indirectly through consumer market demand.

Although both intrinsic and extrinsic value influence the paths followed and the experiences encountered when seeking to accomplish one's own goals (i.e., make versus buy decision), we rely on the potency of value to distinguish between consumer and resale exchange. This potential utility of the exchange prevents us from unjustly forcing dichotomies that would distract from, rather than add to, the development of marketing theory and practice. Exchange between a chicken supplier and a butcher (i.e., resale exchange) and exchange between a butcher and a housewife (i.e., consumer exchange) should help illustrate.

The path begins with each party's dependence on one another to accomplish the hoped for consequence (i.e., goals). In consumer exchange, each party's goals are independent, whereas the means for accomplishing these goals are similar. The goal of the housewife is to serve a nourishing meal to her family tonight. The goal of the butcher is to sell his inventory at a profit. Even though the butcher may or may not care what the housewife does with the chicken, and the housewife may or may not care whether the butcher turns a profit, mutually acceptable terms of exchange can satisfy both parties' needs.

Table: Differences in Consumer and Resale Exchange

Issues	Markets	
	Consumer	**Resale**
1. Purchase Motives	Use	Resale
2. Source of Value	Direct	Indirect
3. Moral Grounds	Individual	Organizational
4. Relationships Interdependent	Mutually	Interdependent
5. Exchange Security	Exchange Partner	3rd Party
6. Gratification	Delayed	Immediate

In resale exchange, the goal of the chicken purveyor is to turn a profit by selling chickens to resellers. The goal of the butcher is to acquire an assortment capable of turning a profit in the consumer market. Again, there is no presumed condition that each exchange party is sincerely interested in the other's needs. But if both can agree on equitable terms of exchange and the butcher can find a willing buyer in the consumer market who will meet his or her terms, each goal will be attained.

Although exchange generally occurs when an equilibrium of perceived value is reached, the elements in each party's utility function leading to each party's hoped for consequence differ in consumer and resale exchange. In consumer exchange, consumers value the potential use of the product, whereas suppliers (e.g., retailers) stress their assortment. The housewife approaches the butcher for a solution to her meal dilemma expecting the butcher to provide choices.

The butcher offers her beef, chicken, pork and veal. Because she served beef last night, doesn't eat pork and can't afford veal, she places greater value on chicken. The butcher may or may not offer additional value. He or she could offer the suggestion that she purchase prepackaged chicken breasts designed to feed a family her size, or he or she may offer advice on how to prepare the breasts. The butcher values the $1.29 a pound he or she expects to receive from the purchase. Both reward structures provide immediate rewards.

In resale exchange, resellers value products for their potential exchange value, whereas suppliers (e. g., manufacturers) stress their individual branded items. The butcher contacts a chicken purveyor to assure that he or she will have chickens on hand Monday morning in anticipation of consumer demand. From experience, the butcher realises that chickens contribute value to his or her assortment.

Although the butcher is interested in an assortment of prepackaged chicken because his or her customers expect and demand various chicken combinations along with beef and pork, the butcher also realises the value support services such as prompt delivery, economy in shipping, a price advantage, and a quality product image contribute to the consumer or end-buyer's assortment. On the other hand, the chicken supplier receives value by on-time payment of stipulated terms, support in upholding the quality of the purveyor's image, and exposure of its branded chicken in the consumer market. Some rewards are received at the time of the exchange, whereas other rewards aren't realised until the consumer intervenes.

Exchange within these two markets may also differ on moral grounds. Houston and Gassenheimer offer the example of a person objecting to guns who finds that possessing a gun reduces the value of his or her assortment. However, the same individual, playing the role of a retailer, may increase the potency of the store's offering by adding a gun to her or her assortment. In another example, we find bar managers denouncing drinking and driving when advising their own children, yet continuing to encourage excessive drinking by offering a happy hour and two-for-one deals. Although our focus is not on the morality of exchange decisions, individual and organizational values differ and have different motivational effects on exchange decisions.

Central to the discussion of value differences are the concepts "multiple roles" and "role-sets." Merton refers to multiple roles as "the complex of roles associated with . . . various social statuses (often, in differing institutional spheres)" and role-sets as "role-relationships in which persons are involved by virtue of occupying a particular social status". For example, the bar managers occupies multiple roles including the roles of entrepreneur and father. His profit objective while performing the role of bar manager may create conflict with his parental role of protecting his child from potential harm. "Role-sets," on the other hand, involve a social structure that accompanies a particular role position. Although the bar manager may morally object to promotions encouraging excessive from upper management may force him to comprise his own personal values or lose his job.

Realizing the differences and similarities of consumer and resale exchange, we next discuss the three-party world of resale exchange and include the effects of social interaction as we progress from exchange events to exchange relationships. We begin with the foundation established by Cook et al.

Events in Resale Exchange

Cook et al., recognizing the contingencies of three-party exchanges, chose to go beyond the consequences of dyadic exchange and consider the social interaction characteristics and consequences of exchange networks. Cook et al. discuss exchange events in terms of positive and negative connections.

Two exchange relations between actors A-B and actors A-C are connected to form the minimal network B-A-C to the degree that exchange in one relation is contingent on exchange (or non-exchange) in the other relation. (a) The connection is positive if exchange in one relation is contingent on exchange in the other. (b) The connection is negative if exchange in one relation is contingent on non-exchange in the other. We follow this rationale in our discussion of resale exchange because a successfully (positively) consummated resale exchange involves not two, but at least three actors — the supplier (actor B), the reseller (actor A), and the consumer (actor C). And, within this exchange are generally alternative actors who often influence the exchange decision and create positive and negative exchanges for the alternative actors.

The purchase by A from B and the subsequence purchase by C from A represent a positive exchange. For example, Walmart's (the reseller's) decision to buy Timex (supplier) watches represents one component of Walmart's assorted offering to potential customers. The consumer's purchase of the watch disrupts the existing assortment and encourages Walmart to replenish the merchandise.

Although the consumer has fulfilled his or her need or desire for a watch, Walmart's decision to purchase watches from the supplier, Timex, has been complemented by consumer demand. That is, consumer C provides the reseller

A the incentive to repurchase, though knowing that C is unlikely to purchase another Timex in the near future. Walmart is motivated by the belief that there are other consumers who have similar needs as C. This exchange provides a positive connection, reinforcing the reseller's decision to include Timex in its assortment.

Cook et al.'s definition of exchange network also suggests that parties to the exchange have alternatives and often build their assortment from these alternatives. Whereas Timex is a party to the positive connection, suppliers not chosen represent the negative connection. The consumer's decision to purchase a Timex implies that the consumer will not purchase the other brands. Thus, under normal circumstances, there is no need for Walmart to purchase more of these alternative brands because they add no additional value to Walmart's assortment.

The reseller's repurchase decision is not as much a lack of commitment as a means of pursuing its own profit objectives, controlling its own costs and ensuring that sufficient revenue is generated from its assortment. As much as suppliers and resellers would like to think of their exchange partners as loyal, reality suggests otherwise. Suppliers, resellers, and consumers are each in the market to increase the potency of their own assortments, and often take advantage of another's vulnerable position to obtain their goals.

For example, the summer of 1992 found consumers flooding the phone lines of airlines and travel agents alike when the price of airline tickets were cut in half. Consumers showed little concern for the airline's and/or their travel agent's profit margins, and airlines showed little empathy for the turmoil they caused travel agents and the discomfort of consumers packed on the flights. This three-party exchange chain found consumers complaining of poor service, travel agents complaining of lower profits, and several airlines struggling for survival.

Until now, our discussion has focused on the dependence of buyers and sellers to acquire critical resources. Little emphasis has been placed on the interdependence between parties and the potential for long-term relationships. However, within our discussion of dependence is some degree of interdependence that helps to consummate the exchange. Thus, we often find that successful resale exchanges are based on both party's interdependence in reaching the consumer market, and successful consumer exchanges are based on mutual interdependence in maintaining each party's reward structure. In addition, once we go beyond single-exchange events, interdependent relations among exchange participants must be organized within markets to determine which exchanges will be performed and which prevented.

Social Structure

As we move from exchange events to exchange relationships, we notice that the organization of relationships differs between consumers and resellers. Supplier and reseller relations are interdependent, whereas exchange relationships at the end of the channel (i.e., consumer exchanges) are generally mutually interdependent; that is, unless the uncertainty of supply and demand interferes with the reseller's attempt to attain its fair share of the surplus. Using Kaufmann and Stem definition, mutuality is "an 'even' distribution [of exchange surplus] that assures adequate returns to each".

Molm and Houston, Gassenheimer, and Maskulka pursue this distinction between interdependence and mutual interdependence by arguing that parties legitimize their own dependence by selecting their own exchange partners, and create their own interdependence through specific behaviours of the parties involved. Resale markets can't be assured of mutual interdependence because mutual interdependence requires expected returns to be evenly distributed. In resale exchange, the anticipation of consumer demand does not always materialize, thus reducing expected returns and denying the reseller its fair share. In contrast, when suppliers sell directly to consumers, their suppliers achieve their independent goals and achieve a mutually interdependent relationship through the value of each other's offerings.

Therefore, suppliers and resellers in resale exchange relationships form their interdependence through the mutual interest in reaching the consumer franchise, rather than a mutual reward structure. However, consumer franchises are often better served by resellers and suppliers developing joint policies and acting as a single unit. Through joint behaviour and the sharing of information resale exchange relationships can be stabilized and mutual adjustments can be made to reflect a "fair" distribution of costs and rewards. For example, Thomas Industrial Products, a distributor for Dayco Products, Inc. used joint sales calls by both their own salesman and representatives from Dayco to land the lucrative Dryden Oil account. Together they offered a quality product and favourable shipping and payment terms. Dayco's support paved the way for further success as Thomas' sales of Dayco Products jumped 22 percent.

This is not to suggest that all resale exchange events are intended to generate relationships or that one-time exchanges are never warranted or preferred. For example, consumers may have unique demands, such as objects of art, or resellers may need to supplement their assortment with critical resources unattainable from regular suppliers.

What I am suggesting is that exchange situations change, and exchange events can, and often do evolve into relationships. For example, consumers' unique demands, such as objects of art, may arouse loyalty toward the artist once pleasure results from the purchase of the object. The reseller's continued access to the ready market and the artist may best serve the interest of all parties.

The experience of the Direct-To-You gasoline station illustrates the impact of change on exchange events. Direct's buying strategy was to disregard brands and purchase gasoline from the distributor based solely on price. Consumers, loyal to price, flocked to the station and success seemed imminent. Then Desert Storm hit and so did a gas shortage. Gasoline stations with preexisting working relationships found their partners supportive of the situation and worked with these stations to find equitable solutions. Direct-To-You was forced to negotiate with opportunistic suppliers who demanded premium prices for their scarce resources. Results were not favourable.

Resale exchange would be misrepresented if the discussion focused solely on the effect resale events and resale relationships have on resellers. Suppliers are also influenced by their dependence. Suppliers use the resale market to reach consumers and find these ready-made markets beneficial for long-term survival. However, being at least one level removed from the consumer, suppliers lose partial control of the resources they bring to resale markets and often find themselves dependent on resellers to gain a preferred position in the marketplace. In cases where relationships have not developed, terms not stipulated in the exchange transaction and the brand equity not established at the supplier's level are left to the reseller's discretion.

There are numerous instances where the lack of established relationships have limited the supplier's exposure to the consumer market and/or encouraged unrealistic pricing. Both factors can prevent products from proving their worth in the marketplace. One entrepreneur, astute in investment record keeping, developed a product for organizing an individual's financial portfolio. Resellers showed interest and saw a need for the product but offered little commitment. A typical comment was "I'll give it a try." With limited shelf space and virtually no promotional support from the reseller, consumers remained unaware of the product's benefits. Mutuality, which is so important to exchange relationships, never materialized and the product was soon discontinued.

Resellers have also been accused of exploiting supplier brands to promote their own interest. One major manufacturer found that large retail chains were using its brand name to lure consumers into the store only to switch them to cheaper, no-name brands in order to enlarge their own.

These two examples illustrate the effects the powers of resellers have on the vulnerability of suppliers when suppliers fail to communicate value to, and develop relationships with, both resellers and consumers. The latter example also reveals the importance of role integrity if relationships are to survive. Role integrity exemplifies "roles that reflect their [the parties to the exchange] promises and expectations" and solidifies each party's interdependence.

Social Distance

So far we have looked at twos-party exchanges between supplier and reseller with a third-party influencer being the positive connection. The positive connection focused on the consumer's selection of the supplier and reseller combination that added the greatest value to its assortment. Now our attention turns to the negative influence, a competitive third party (e.g., a second supplier).

Dwyer and Gassenheimer refer to this "simple" network of reseller and two rival suppliers as a "triangular drama." The drama unfolds as the two suppliers direct their efforts to gain a preferred position in the marketplace through a common reseller. No longer does the mutual exchange of acceptable terms exclusively dictate the exchange relationship. The reciprocal process of an initial action of one party and a balancing reaction by another party is interrupted by a rival party providing similar or superior contributions. This intrusion may not only redirect the lion's share of the business but may also redefine the social structure of the exchange relationships. Social structure refers to the rules and procedures that specify each party's power/dependence position in the relationship.

Social structures within networks involve a fraternity of relationships some of which could be considered gray markets. Houston, Gassenheimer, and Maskulka allude to this in their discussion of gray intermediaries. These gray intermediaries are "marketers who have taken control of the relationship and are using it for their own purposes, exploiting the relationship with the manufacturer for the intermediaries' own short-term gains."

Our previous reference to the large retail chain that used a major manufacturer's brand name to increase store traffic, only to switch customers to a cheaper brand with higher profit margins, would be an example. This gray behaviour involves the use of outside alternatives that violate the established norms within the dyadic relationship. The consequences of this violation, however, go beyond the dyadic relationship between manufacturer and gray intermediary. The manufacturer's relationship with other intermediaries within the channel, outside the channel, as well as its relationship with the final consumer is also affected.

What is suggested in this gray market discussion is that there exists the potential for one party to violate the trust and commitment inherent in on-going relationships. This is not to suggest that all social structures are gray or quasi-gray markets. Social structutes have all levels of directed interest. Gray markets are directed by self-interest but we also find relationships with various levels of joint interest or in extreme cases altruism. If we could ignore the political pressures that influence our law makers, the rewarding of government business to minorities at the expense of higher prices could be considered altruistic behaviour.

The "level of interest" concept is similar to Houston and Gassenheimer illustration of a distance continuum within social structures. Whereas the "level of interest" continuum is anchored by altriusm and self-interest, the "distance" continuum is anchored by general and negative reciprocity. The examples used by Houston and Gassenheimer refer to family exchanges and deceptive exchanges, respectively, with a balance distance representing exchanges transactional in nature. Social distance in resale exchange can also be viewed on a similar continuum. Sony's decision to provide small companies with key technical information and news of technical changes is an example of general reciprocity where giving minimizes social distance. Here, the smaller companies' indebtness to, and increasing dependence on Sony holds these relationships together.

In negative reciprocity, where social distance is at a maximum, one organization capitalizes on some vulnerability in the other organization. Claiming that new products were needed to serve the customer better, Drexel Burnham, under the auspices of Michael Milken, gained access to these products by taking companies with badly needed capital hostage. In the process, Drexel "gouged" companies into using their equity to buy debt. Note, however, that without a consumer market Drexel would have never made billions of dollars.

In between the extremes of general and negative reciprocity is balanced exchange. These exchanges are transactional in nature, where terms are negotiated *quid pro quo*. The example of the Direct-to-You gasoline station fits this area of the continuum. The exchange between Direct and suppliers was short in duration with standard obligations. There was little anticipation of future interdependence nor did the identity of the supplier matter. Price was the primary factor because the price-conscious consumer was the market. Neither party pursued a relationship.

These examples illustrate another difference between consumer exchange and resale exchange. In resale exchange, a third party provides the ultimate security and serves as the catalyst for the positive and negative connectiveness of exchange, and ultimately defines the exchange relationship outcome. The third party, in effect, redefines the relationship and social distance between suppliers and resellers by shifting the distribution of power and dependence. This relatively simplistic view of rival alternatives guides us down another path and begs the question: how can exchange partners build multiple relationships with competitive suppliers?

MULITIPLE EXCHANGE RELATIONSHIPS

Along the route to successful resale exchange relationships, exchange partners often find themselves involved in a web of relationships, some of which would serve as substitutes or partial substitutes in terms of the needs they could fulfill. Suppliers need to assure themselves that their brand receives sufficient consumer exposure, whereas resellers must offer an assortment that meets the requirements of their consumer franchise. Therefore, coordinating relational continuity across relationships is likely to create a very perplexing exchange problem.

Guiltinan discussion of planned and evolutionary changes in distribution channels reveals the difficulty of suppliers and resellers reaching an equilibrium when multiple suppliers compete for reseller constancy. That is, rewards and costs are seldom optimally distributed among channel partners. Therefore, the inequity between relationships promotes shifts in favour and discourages total commitment with any one partner. This is further argued as we examine Dwyer, Schurr, and Oh definition and discussion of commitment. Commitment is defined as "an implicit or explicit pledge of relational continuity between exchange partners" (. That is, exchange partners are expected to provide "significant economic, communicaton, and/or emotional resources . . .over time . . .to the relationship.

When a web of competitive relationships transcends resale partners, we can assume that each relationship lacks complete information, unless exchange partners can't be trusted. What is meant here is that access to complete information jeopardizes the confidentiality of competing exchange partners.

Williamson warns against trusting others with differences of interest. And he is right. Exchange partners participating in multiple-exchange relationships are unlikely to have a unity of purpose with each partner, and there is no assurance that any one of their partners will not act opportunistically. What can be assumed, however, is that some level of interdependence coexists, and this interdependence is accompanied by conflict and co-operation.

Conflict is defined as "the mutual interference that hinders the accomplishment of individual and/or mutual goals. . . . Cooperation is the joint striving toward individual and mutual goals". Although the coexistence of conflict and cooperation seems contradictory, we find that the reality of dependence, self-interest, and group welfare necessitates the presence of both. Bonoma explains in his discussion of bilateral power systems. Conflict . . . seems to depend on some ratio of divergence between one's preferred policies for self-gain maximization, and those entertained for unit maintenance enhancement . . . Those parties to interaction are cooperative who display a visible concern for participating in unit policy formation, and therefore unit welfare enhancement.

Bonoma further suggests that parties can unselfishly, but stubbornly, disagree on the joint policies needed to enhance the goals of the unit. This type of functional conflict can create an awareness that mutual goals can be more efficiently achieved by restructuring the exchange elements for the good of both parties. At other times conflict may overshadow group welfare where neither party can function effectively. Without a common goal the relationship eventually dissolves.

On the other hand, dependence and group interest encourages cooperative behaviour. But too much cooperation can be dangerous. Although we generally think of cooperation as functional, it can also be dysfunctional and destroy relationships. For example, cooperation with one exchange partner can threaten the relationship with other exchange partners. In addition, excessive cooperation can instill complacency, preventing parties from reacting to changing conditions.

Here, successful resale exchange is viewed from the perspective that cooperation and conflict will ebb and flow until an equilibrium supportive of the resale exchange unit is reached. Therefore, cooperation and conflict are not viewed as functional or dysfunctional, but as mechanisms for mediating relationships. We often find suppliers and resellers cooperating to serve the needs of the unit but fighting over the distribution of rewards. The hoped for consequence of the interaction and the belief that each party's individual goals will prevail is the reason the exchange relationship survives.

Finally, the question is asked: how does resale exchange fit into the social system of interrelated, yet sometimes competitive exchange relationships? If outputs are greater than the sum of the inputs, then the role of resale exchange has served its purpose. This is also true of consumer exchange. This brings us to the most important difference between resale and consumer exchange. Resale exchange is not a necessary condition for a successful consumer exchange, but consumer exchange is a necessary condition for a successful resale exchange. However, although the latter is neccessary, it is not sufficient.

As we examine relationships, we find that social systems are really open systems and players are forced to deal with uncertainties created by the imbalance of multiple reciprocal interdependencies. Once this point is reached in the mapping of resale exchange, we find un-chartered waters. There is much to be gained by further investigation. This is my challenge not only to those interested in exchange but to the entire marketing discipline.

8

Service Appraisal and Compensation

PERFORMANCE

Volumes have been written about performance appraisal and compensation. In most professional firms, each of these topics is an important area and is subject to review and update. However, in order to maintain uniformity, one methodology is generally followed in each area. A performance appraisal rating of X generally means that a certain level of performance has been achieved. An increase in compensation of Y means that a specifiable work goal has been reached. Standard and reliable means are used to measure and define changes in a person's position within the firm. Yet, each system also needs to recognize the human element that is part of the dynamics of the system.

Performance appraisal is the systematic review and evaluation of the professional person's work performance over a set period of time. That performance is then compared to some established performance standard. The final step is the communication of that evaluation to the individual. Ideally, this review session should be motivational, upbeat, and developmental for the individual and the firm. Compensation is a broad topic but generally is a function of the performance appraisal. Most firms combine the performance appraisal with a discussion of compensation.

The exact form of compensation can be an increase in salary, draw, or commission. It may mean an altered or increased package of perks, benefits, or stock options. Several other variations on these basic compensation forms can be used to reward the individual for his or her performance over some period of time. Performance appraisal and compensation are frequently associated with promotion within the firm. A positive review, in most circumstances, eventually leads to a promotion into a managerial position.

This general trend is also valid when discussing professional development in a service organization. The value of defining, communicating, and using valid systems of performance appraisal and compensation is universally recognized. The most effective use of these systems involves recognizing and allowing for the idiosyncratic behaviour patterns of the individuals that they are designed to manage. Each of the different behaviour types can have a separate perception of the value of these tools. The more successful managers use the tools as instruments and incorporate the needs, wants, and aspirations of the individuals that they supervise into the process. That manager can use these broad-based tools more effectively.

The manager needs to allow for the human element in using these tools to more appropriately guide the people within the organization. After all, in a professional service organization, the people themselves represent the products and services of the organization.

PERFORMANCE APPRAISAL

Performance appraisal in a professional service firm can be one of the most misunderstood processes of the firm. However, if properly constructed and applied, it is a powerful tool to motivate behaviour. The appraisal process is part of an overall system. It is intended to be an integral part, but only a part, of a total management system. Properly used, it is an influential instrument. The appraisal is most effective when it is a periodic, but regularly scheduled, event. It should be designed to measure and compare recent performance against some form of established and achievable goals. Every professional service firm faces deadlines, pressure situations, and tight work time frames. However, the performance appraisal process is one activity that has to be included with those activities.

It should not be put off or relegated to a quick lunch. Giving such short shrift to this critical activity will only encourage a similarly lackluster attitude among the people receiving such reviews. Certain types of managers are inclined to provide just such appraisals, as will be discussed later. At the same time, the review process cannot be speeded up to fill a temporary void in an otherwise busy schedule. For example, completing a new review within 3 to 4 months of the previous one because the time is temporarily available before the rush of new projects begins sends the wrong message to the subordinates and will ultimately serve a negative value.

The appraisal system should include a reasonable variety of goals, which should be mutually agreed upon by the subordinate and the manager. Otherwise, the subordinate may feel that he has little or no chance of meeting the goals and may not try as hard as he otherwise would to reach them. Goals that are assigned by a boss to a subordinate without some input from the subordinate can destroy motivation. The person being reviewed has to believe that he or she at least participated in establishing the goals to be judged by later.

Studies show that people who participate in the goal-setting process believe that they have an increased chance of meeting them. Some managers do this deliberately, but most often when the subordinate is not included in the goal-setting process; it is merely an oversight on the part of the manager. Curiously, such managers are quite anxious to meet with their manager and to jointly establish their goals for the next review period.

Once the review is completed and certain areas are recognized as needing improvement (and again, these should be jointly decided during the review process), the first part is complete. Next, the manager should show a good deal of skill in counseling and coaching the subordinate about how to improve his or her behaviour. This part of the process represents an opportunity for the manager to change certain job-related behaviour(s) and motivate the person to change. This cannot be the only time that the manager uses his or her motivational skills with a subordinate, but it is a key opportunity to do just that. This coaching is frequently the bond that unites the manager and subordinate between review periods.

The manager provides specific examples of behaviour that needs to be modified and conveys to the subordinate that he has interest in seeing the subordinate change, wants to help him improve, and is professionally committed to assist him. This is not an easy process. To do this effectively requires emotional energy, concern, and insight. Failing to do it properly will lead to either un-changed behaviour, indifference, or outright antagonism from the subordinate toward the manager and the firm.

Everyone involved in the performance appraisal process should readily understand that improving the performance of the subordinate has value for the individual, the manager, and the organization as a whole. Some people are highly individualistic in their approach to achieving work goals, and others demonstrate a much stronger team orientation. However, most professional people will agree that the overlap of personal and firm goals will improve their joint and individual performance. The more that the assigned goals overlap with the personal motivations of the individual being reviewed, the better for everyone.

In simpler terms, if a professional service firm consistently meets its goals over a period of time, it is probably safe to say that a fair proportion of the individuals in the firm are also meeting their personal and business goals. Indeed, it is at the critical and unfortunate point when individual and firm goals begin to seriously diverge that problems arise. When this happens, people as individuals and the firm as a collective entity fail to meet their combined goals. Once this happens, turnover costs, lost business opportunities, and a general decline of the firm will almost certainly follow. However, the key is to maintain a reasonable balance between the individual goals of the separate professionals and the overall goals of the firm. This simply stated objective is the primary function of the performance appraisal process.

Perhaps the key to building an effective performance appraisal form is to keep it simple and flexible. Simplicity in form and function will appeal most to the overachiever behaviour type. He sees great value in being uncomplicated and straightforward. The fact that the material is objective and consistent will appeal to his sense of universal fair play, and it will communicate to him that the organization is playing on a level field, where most people are being graded in the same manner. Naturally, even with the same performance appraisal form, some differences will exist. The behavioural differences in managers conducting the performance appraisals can create a difference in ratings, but the overachiever will recognize and accept this. He will also understand and accept the need for some flexibility in the rating form.

The presence of flexibility will appeal most to the entrepreneur, active and aggressive behaviour types. The entrepreneur, who is frequently convinced of his own self-importance, thinks that a non-standard document will be semi-created to incorporate his unique talents. This will flatter his ego and may be required in order to accommodate the entrepreneur's ability to react uniquely in different situations. If the entrepreneur shows unique talents that are not generally measured with the existing form, then some accommodation can be made to recognize this situation. The active person sees variety as a meaningful part of life. Sometimes he likes activity and change for its own sake, and he will also endorse the possibility of flexibility in the form. He will not demand or require it, but he will be glad to hear of the possibility.

The aggressive person can, like the entrepreneur, believe that his contribution is unique and should therefore be rated on a separate form. It is not so much the creation of the form that matters to him, as it is the idea that if necessary his contribution can be accommodated with an exception. Conversely, the entrepreneur and aggressive behaviour styles prefer the idea of simplicity and simple forms for rating subordinates. This policy allows them to control and influence these people by stating the preferred company policy of using the standard form.

Individuals represented by the passive, sensitized, and compulsive behaviour styles are less concerned with the form of the performance appraisal. They assume that it will be designed intelligently and used appropriately. Their approach is in contrast to the entrepreneur and aggressive types because these latter three do not see the performance appraisal form as a means to gain more money or status, increased visibility within the firm, or credibility with their superiors. These are goals and incentives for the entrepreneur and aggressive behaviour types, who will consciously use any means possible to legitimately advance themselves within the firm.

It is effective to think of the performance appraisal form as having four separate parts: the written evaluation, disagreement addendum, interim summary, and action plan.

Written Evaluation

The written evaluation is a summary evaluation for an individual, covering a specified period of time. It can take many forms. It includes a written evaluation that discusses the performance in some slightly ambiguous verbiage, but also includes a quantitative rating of the person's performance. The quantitative portion is necessary as input for part of the compensation discussion that will follow the performance review.

The task factors being measured are listed in the far left column. These factors can be changed to suit the position and the company. The factors listed here are obviously sales related, but other equally valid factors can be listed. A second column includes a set of weights that quantify the importance of each factor. These factors are each assigned a weight of between 0 and 1.0, but the total of the weights must equal 1.0.

The top portion of the figure is a numerical rating scale ranging from 0 to 1.0. Each candidate is rated on each factor. The final performance rating is determined by multiplying each (weight value) x (the rating scale values) and summing those scores to decide on a performance rating. For example, the task factor "organization" was assigned a task weight of .25. This number is multiplied by the performance rating of .7 for an index of .175. Each of the task factors is assigned a weight and multiplied by the performance rating to give an index figure in a similar fashion. In the example given the total index figure is .450.

Disagreement Addendum

This is a form that allows the person being reviewed to state in writing his disagreements with the review he or she has received. The review will not necessarily be changed, although it can be. At a minimum, the addendum provides the subordinate a chance to express his or her differences with the review received. This addendum can be reviewed by the manager's superior in the firm. If a number of disagreement addendums are filed against a manager, then it may be an indication that the manager is providing poor leadership to his subordinates. The prime purpose of the disagreement addendum is to provide a check on the performance of the manager.

This is an official, but less extensive review, of the subordinate. It is completed on an interim basis, preferably the six-month periods between the yearly reviews. The yearly written evaluation review will include areas of needed improvement and suggest ways for the subordinate to improve his or her performance. A six-month period is considered sufficient time for the subordinate to show some positive changes and to warrant an interim review. It should include a reference to the earlier written evaluation review and note where the subordinate's behaviour has improved or not changed. Again, it serves as an ongoing basis to evaluate and inform the subordinate of his or her progress.

Action Plan

This is the final part of the structured performance appraisal process. It is a document that is designed to assist the subordinate in achieving goals in a manner that makes sense to him or her. It is intended to be a vehicle that will enable the subordinate to reach his own desired level of performance (with the implied support of the manger). Ideally, the subordinate should write the action plan himself, as an outgrowth of discussions with his manager about what areas need to be improved. He should set his own yardstick of development and measured improvement. This process of buying the subordinate into the review will increase the likelihood that it will be completed successfully.

The exact topics of the performance appraisal should be tailored to the needs of the organization and the level of the person under review. Simplicity and flexibility are important here. The initial review should include performance standards that are reachable and, if possible, jointly decided upon by the subordinate and the manager. This joint decision making process will increase the likelihood that the goals will be accepted and reached. The interim summary review should take place every six months after the formal performance review. The subordinate needs to know that his manager is still very interested in his development and that the material discussed six months ago is still an important part of the criteria for his review.

The action plan that the subordinate develops should be as specific and task oriented as possible. Definite goals should be established within a given time frame. The purpose of this plan is to show improvement from one review to the next. While these steps sound fairly easy, at least on an intellectual level, their implementation can be difficult.

IMPLEMENTATION

The implementation phase often involves the less mechanical aspects of the plan. It means a face-to-face discussion of the subordinate's behaviour and convincing the subordinate to change. If the subordinate cannot or will not accept this advice, then he or she and the manager must face the reality that the firm may not be the best place for that employee. These discussions can be intensely personal, although conducted in the most professional manner, and they often involve a deep understanding of people.

The coaching, counseling, and communication aspects of the performance review process can be difficult. The actual performance feedback session is probably the most difficult part of the whole process for it is intended to modify behaviour, assist in professional development, and instill a sense of confidence and motivation in the subordinate. The structural steps to complete this process are well documented in a series of books and manuals on personnel topics. Thus the focus in this text is on the interpersonal aspect of the review process.

The manager who provides performance feedback to different subordinates needs to remember two critical facts: the manager possesses one behavioural style and the subordinate probably possesses a different behaviour style. Items that are important to the manager may be less important to the person being reviewed. Therefore, the manager should strive to understand *both* himself and the person he is reviewing. This understanding begins by the manager's categorizing himself or herself in terms of the behaviour styles. Before reading further, take the time to graph yourself as a manager—specifically in terms of providing feedback to your subordinates.

Overachiever

The manager who is characterized by the overachiever behaviour style can appear unbending, inflexible, moralistic, and intimidating. He may assume that one right way exists to achieve most goals. That path is generally demonstrated by forthright talk and by focusing on tackling problems directly. He is a deliberate and logical person who feels that his brusque fashion is the best way to resolve problems. Such managers are task oriented, focused, no-nonsense, and driven to achieve purposeful goals.

The overachiever manager sees performance review coaching as an opportunity to set the record straight. He sees it as a time that will enable someone to either show his sense of discipline or desire to improve or to resign from the firm. The person whose behaviour style is dominated by the overachiever trait can be perceived as too harsh and uncaring. He may be called inflexible and out of touch with today's people.

If these managers have the opportunity to recruit, select, and enlist their "own" people, they have a much higher probability of being successful with them because the overachiever will typically attract and hold people who have a high degree of the same trait. Hence, they will understand each other and develop a sense of rapport with others. However, if the overachiever manager inherits a group of subordinates with diverse behavioural styles (including moderate to low overachievers), then this condition can cause him and the subordinates some difficulty. They will have problems effectively communicating with each other, and sooner or later one is likely to leave the firm. The manager will probably replace some of the subordinates, rather than leave himself.

The overachiever manager is a disciplined task master, but, in all fairness, he is almost universally perceived to be fair. He does not play favourites, and if his methods are followed, he will almost guarantee success. This type of manager may not necessarily be personally liked by all his subordinates, but he can instill in them a desire to be successful, and he will take the time to demonstrate the "right" way to achieve a series of goals. He is an effective manager from a performance appraisal perspective. He demonstrates a disciplined but consistent, and ultimately successful, manner of developing personnel.

The subordinate who possesses a high degree of the overachiever will warm to this type of supervision like a graduate of U.S. Military Marine Boot-Camp. They may differ on some issues, but they both recognize the value of disciplined training. They may not appear especially chummy, but they will readily show mutual respect. The two overachievers are well matched, and if enough subordinates possess this trait, their manner can build a very disciplined and effective professional unit.

Entrepreneur

The manager who possesses a high degree of the entrepreneur trait will demonstrate a different style of supervision. Generally speaking, for an entrepreneur to reach a managerial role in a professional service firm, he will also demonstrate a reasonably high degree of the overachiever. Such managers are a blend of self-discipline, self-control, and ambition for money and the physical rewards of life. These people are typically interpersonally smooth and socially skilled. They are naturally clever at reading people and possess an almost uncanny ability to read and react to what others are saying in a business or social situation. These people make good managers, but they tend to have a limited degree of patience with the performance review process.

For example, they tend to think that the best people will operate like them—independently and competitively. They are not uncaring, but they do assume that making money is universally recognized as its own reward. They live by the dictum that the more money a person can make (on his own), the better off he will be. They see the invisible hand of competition everywhere and want their subordinates to achieve independence without too much direct supervision from them.

These managers assume that if they are required to "baby-sit" their subordinates, then the subordinates may not be worth keeping. However, their definition of this "sitting" process is considerably shorter compared to other people's definitions. They expect their subordinates to achieve success independently and the overachiever-entrepreneur implies that this is exactly how he achieved his lofty position in the firm. This may be true, but many of these people tend to have a short memory for those who helped them along the way.

The subordinate with a high degree of the entrepreneur trait fits like a hand in glove with the entrepreneur manager. He believes that he has found a manager who is tough on him but who also understands him very well. Because the entrepreneur manager reads people so well, he will readily recognize the less experienced subordinate entrepreneur and take a special, but totally professional interest, in him. They will match and fill each other's needs well. They will typically both prosper together, and the manager will be perceived as a genuine mentor for the subordinate.

Other, more diverse behaviour styles will fare reasonably well under the entrepreneur, as long as they show the competitive spirit, self-determination, and semi-Machiavellian insights that the entrepreneur values. Less clever subordinates can feel used and professionally forgotten by such managers. In order to be effective with a wide range of people, this manager needs to understand and accept that not all productive and worthwhile professional people share his sense of immediate reward measured in bonus dollars and business perks.

Active

The manager whose behaviour style includes a large portion of the active trait will be everybody's favourite person, at least socially. The person whose behaviour style is dominated by the active trait is friendly, personable, and well meaning. He is socially interactive, interested in the give and take of a relationship, and sees value in building long-term relationships. However, the active trait is seldom predominant in an individual behaviour style. Frequently, it combines with the passive *or* aggressive traits. It is less frequently combined with the overachiever or entrepreneur traits. The degree to which the active trait combines with each of these other traits will strongly influence the behaviour of the manager.

The active-passive behaviour style person is at once friendly, personable, and well intentioned, but also slightly unsure, and occasionally tentative. He prefers structure, rules, and some regulations for independence and individual responsibility. He can be a delight to work for because he is easy to work with, generally appreciative of his manager's efforts and results, and is eager to be accepted by the people he is supervising. He is not likely to demand a position of power in the firm, but neither will he be readily courted. In some ways, he is the quintessential middle manager whose career has stalled or is progressing at a very modest rate. He is likeable but cannot score a big success or make a significant impression.

If he could develop slightly more discipline or dynamic energy, then he could reach a position of higher leadership in the firm. He gives insightful, balanced reviews, although generally well within the prescribed limits of raises and promotions. He is not about to rock the boat for anyone, let alone a subordinate. If the recommended salary increase range is from 3 to 5 percent, then his recommendations for raises will be in that range. Everyone likes him personally and professionally, and few people will fault him.

He has the most difficulty supervising individuals with a strong amount of the entrepreneur and aggressive behaviour traits. These people will antagonize, fight with, and eventually attempt to undermine his authority. They are anxious for increased visibility in the firm and will not be content remaining in the shadow (as they see their current position) of a person who is not a fighter. In time, such people will either cause the active-passive manager to leave, or will try to transfer away from his work unit and toward a more entrepreneurial or aggressive manager.

Active-Aggressive

The active-aggressive manager stands in sharp contrast to his active-passive counterpart. He, too, is well meaning, likeable, and outwardly friendly. He is also status conscious, occasionally argumentative, and prone to seek out positions of leadership. He welcomes the performance appraisal process. He is not afraid of people and is willing to provide candid, generally inspirational and positive feedback to his subordinates. He sees the responsibility of developing people as a crusade, and he sees himself as being up to the challenge. He does his best to recruit capable individuals and then, like an athletic coach, army drill sergeant, or inspirational teacher, he works with them to improve their present skill level and motivates them to reach goals that, without his unique form of leadership, *might* be beyond their reach.

He is popular with his subordinates because he makes them achieve beyond what they might expect of themselves. He is emotional, persuasive, and friendly—a somewhat charismatic leader—and willing to take the lead on difficult issues. At the same time, he possesses an ego and wants everyone to understand and accept that he is the person in charge. He is the person who dispenses the raises and other corporate perks, and subordinates should recognize that fact. He will be strongly loyal to his subordinates, but he expects the same form of unswerving dedication to whatever course he sets for his unit. He will accept some criticism of his decisions, but he expects everyone to accept his final decisions, and this includes recommendations for raises and promotions.

Subordinates will prosper under his guidance. He may be slightly ostentatious in dress and demeanor. He may also be self-aggrandizing to some degree, but he gets the job done. He will listen to reasonable alternatives, but he will fight for what he believes belongs to his unit. He will share the spoils of his corporate skirmishes with his subordinates but will be inclined to keep a significant portion of the credit for himself. He motivates others effectively and leads by example.

He is not afraid to ask for additional compensation for a subordinate who has proven himself, and he will fight to keep a borderline person who is finally showing signs of improvement. On balance, most people will enjoy working for him, and most will readily recognize that he means well and that they are better off with him than some other manager, at least until they believe that they have outgrown his friendly but ultimately controlling style of supervision.

Passive

The person whose behaviour style is dominated by the passive trait may become a manager of a technical unit. Generally, however, he is not likely to play a significant role in developing a unit that is remarkable for its sales or marketing skills. The passive person is compassionate, sympathetic, and interested in doing things in the right way. As a manager of a technical unit, the passive person is cautious, prone to be tentative, and slightly unsure. He lives by the numbers, works according to the rules, and abides by a somewhat strict adherence to company policies and procedures. He does not act this way out of a strong sense of self-discipline, but more from a fear of failure and concern over losing his position.

He will be totally fair, honest, and objective in evaluating his personnel, and they will receive consistent and balanced appraisal for their work. However, they will not necessarily be promoted out of the unit. Their names will not be prominently mentioned, if mentioned at all, as candidates for positions in other departments. He feels somewhat entitled to hold onto the people he thinks he has developed. Besides, he would say, "Why would anyone want to leave here—it's risky making a change, and working for someone else is a big change."

The passive subordinate person will probably be the most submissive in the performance appraisal process. He is not prone to expect too much and, in fact, is predisposed to expect the worst in many situations. An anxiety-inducing process like a work review will probably create a high degree of nervousness and unsteadiness in him. His initial reaction will be complete fear of failure.

He will need reassurance and emotional support to overcome these feelings of tentativeness and self-doubt. He needs to be complimented and reassured because with the right form of emotional support and understanding, he can become a dutiful, reliable, and consistently solid performing employee. In marketing-oriented professional service personnel who are involved in a sales activity, the passive trait is most often combined with the active trait to form the active-passive behaviour style.

Aggressive

The individual personified by the aggressive behaviour style is a commanding, no-nonsense type of person. Again, the aggressive behaviour trait seldom demonstrates itself alone. It is most frequently associated with others that form the entrepreneur-aggressive, active-aggressive, or aggressive-compulsive behaviour styles.

The aggressive person can be an especially effective leader when combined with any of these behaviour traits. The core of the aggressive behaviour trait is social dominance, task control, and interpersonal control of most group functions. The key to understanding the aggressive person is to remember that he is driven by emotional insecurity. He needs to control his environment because in that way it cannot attack him. He wants to be in charge so that his authority will not be usurped by some outside source.

He strives to be fair and evenhanded in providing performance feedback, but he also aspires to ensure a sense of loyalty tinged with dependence from his subordinates. He strives to influence his subordinates so that their primary loyalty is to him first and to the firm as an organization second. In that way, if he should "need" them for anything, they will see him in a positive light. The one area where he may need them is if he decides to leave the firm; in this case, he may try to persuade some of his former subordinates to leave with him. In his mind, the subordinates will work with him in a subordinate role in a new firm (possibly his own). The organization needs to safeguard against this possibility.

The aggressive subordinate can be a socially combative subordinate in the performance review process. It is wise to prepare thoroughly for the session with him and to marshal the facts with irrevocable substantiation for the comments made. He is prone to debate any negative comments and can take such remarks in a personal manner far more than might be expected.

Sensitized

The person characterized by the sensitized behaviour style who also happens to be a manager in a marketing-oriented firm is unusual. He may hold a high-level technical (R & D) or specialized administrative function, but seldom a marketing-oriented managerial post. However, the sensitized manager is uniquely well qualified to read, evaluate, and understand the behaviour nuances of his subordinates. He is highly perceptive about people and uncannily deductive in terms of understanding the motivations behind seemingly contradictory behaviour.

However, as credible and capable as the sensitized person is in reading people, he typically lacks the social charisma or leadership qualities to utilize these skills to purposefully direct and lead people—except in a technical area. He is creative, original, insightful, and genuinely thoughtful but lacks the outward sense of self-confidence to take charge of situations and become a dynamic leader. He almost instinctively knows what should be done and can support and assist another person's lead, but he frequently lacks the outward sense of socialization to be an effective leader himself.

As a subordinate, the sensitized person will quietly accept his performance review rating and surmise that he has or has not been treated fairly. If he decides that he is not being given a reasonable reward for his efforts, he seldom will voice his complaints but will surely seek employment elsewhere, and once focused on another position, he will not be deterred from leaving the firm. Managers can make the mistake of assuming that because the sensitized person is quiet and self-effacing, that he lacks belief in himself. Actually, the sensitized person frequently thinks of himself as superior but feels no need to outwardly broadcast his inner self-assurance. However, he also feels that if his manager is not sufficiently perceptive to recognize his talents, then he will quietly plan to leave his present situation for a new one.

Compulsive

The person categorized by the compulsive behaviour style is statistically rare in society. Yet when observed, his behaviour pattern is quite obvious. In some ways, the mechanical, logical, and quietly well meaning Mr. Spock of Star Trek is the prototype of this person. He is equally interested in the fairness and logic of the appraisal process as he is in the final rating he receives.

As he perceives the process, if the material used to prepare the appraisal is rational, then the conclusions will ultimately be fair. He may argue about the logic of a certain conclusion, but he will seldom show much emotion about the final analysis. Eventually, if he agrees with most of the points, he will decide that it was a fair process. If not, he will conclude that such subjective processes as performance appraisals are inherently subjective and that he just has to learn to live with the results.

COMPENSATION

Compensation in all its forms—pay, benefits, perks, stock options, and so on—is an integral part of the professional person's employment package. Moreover, compensation plays a vital role in developing and motivating the members of the firm. It may not be popular to highlight the single importance of compensation and rewards in a professional service firm, but the bottom line is that compensation plays an integral role in building a professional service organization.

Many studies have been conducted to show the "reduced" importance of compensation. For business people, in general two frequently cited theories are Abraham Maslow's impressive theory on the hierarchy of needs and Frederick Herzberg's two-factor theory of motivation. Both these popular theories report impressive results, and like many academic studies, they also have opponents who cast aspersions on their validity. Nonetheless, they are well known and are frequently quoted in the popular business press.

The authors of both of these studies and the hundreds of other studies that are based on their results, or are similar to them in using scientific methods, did not analyse the behaviour styles of the people they studied. The studies included large groups of professional, administrative, research, and even blue-collar workers but did not separate the participants according to behaviour style. The work reported here suggests that when the behaviour styles of the individuals involved in the studies are analysed, different results emerge. That is, while to certain behaviour styles compensation is especially important, to other behaviour styles, it is much less important. This is to be expected.

However, the behaviour styles that are the most likely to be successful in a marketing-oriented professional service organization are frequently highly motivated by compensation. These behaviour styles include individuals who are high on the overachiever, entrepreneurial, and aggressive traits. People who score high on the overachiever trait see compensation in two ways, first, as a way of keeping score, and second, as a way of partially measuring their worth in the marketplace. The entrepreneur is interested in compensation because he is primarily money motivated. He sees value in having a higher income and is willing to work hard in order to achieve it. The aggressive person is interested in compensation as a means of securing the status and prestige that he aspires to, but also as a way of securing his place in the hierarchy of the firm.

When focusing on the more marketing-oriented people who are successful in a professional service firm, money talks. This is not to deny the importance of other issues that are critical to successful marketing oriented professional people, but compensation is a consistently important factor to the better people. This issue should be recognized and dealt with, not swept aside as some potentially embarrassing side issue. Again, not all the successful personnel are only money driven, but it does play a significant role.

Compensation is also an important factor to individuals whose behaviour styles emphasize other traits. The individuals whose behaviour is typified by the active, passive, sensitized, and compulsive behaviour styles are typically less interested in compensation per se than their counterparts. Money is important to them, but it is typically no more important than a host of other factors. However, in studying the professional service firm, it is important to understand the people characterized by these traits and their level of interest in compensation as well.

Compensation and the professional employee is a broad-based and encompassing topic. Many books have been written on the technical aspects of it. The focus here is more restrictive. Compensation is evaluated below in terms of three different criteria—recruitment, reward, retention and the seven behaviour styles in the professional service firm.

Recruitment

Financial reward is a significant factor for most people who enter the field of professional services. This is especially true for people joining the ranks of a professional service firm for the first time or those changing firms within an industry. The truth of this is easily seen in the fact that large professional firms (including law firms and consulting firms), routinely start "new" professional personnel at the same high salary. This is not done out of the goodness of their hearts but because they want to limit their initial expenditure for somewhat unproven talent and do not want to begin a bidding war with each other for the same pool of talent.

The people who choose professional services as a career frequently are intelligent, well educated (MBAs, lawyers, actuaries, etc.), and disciplined. They have proven themselves over a period of years, although in the somewhat rarified atmosphere of school and limited professional employment. They believe in their own worth, and this self-perception has been reinforced by the flattering recruiting treatment they receive from the firms seeking to employ them. They have some definite expectations concerning their work load and their rewards for a career in the field. They also make conscious choices (at least they would like to think they are deliberate) about the type of firms for which they choose to work.

Once employed, they also anticipate continuing their self-imposed regimen. They expect to work long, hard hours and to be compensated for working under pressure and with strict production deadlines. They would like to think that their sense of social maturity and business judgment is important—and it *is* to some degree—but these traits will be developed over time as they gain an opportunity to ascend in the firm's hierarchy and as they take on increased responsibilities for marketing the firm's products and services.

The dollar amount for a starting position is important to most professional service personnel, but since this is largely determined and partially controlled by the market forces of supply and demand, it is relatively set. However, the type of compensation will quickly separate the incoming professional service personnel: salary; salary and bonus; or salary, bonus, and commission.

The more passive individuals will strongly prefer the straight salary for compensation, whereas the more entrepreneurial and aggressive personnel will be more inclined to seek some form of salary and bonus or commission. They believe in "controlling" their destiny to a greater degree and are more willing to invest in themselves as a means of achieving their goals. Interestingly, the active person is probably the most flexible, and he can be sold on the idea of a bonus/commission compensation package easier than the other behaviour styles.

Reward

In the best of all possible worlds, the most productive workers receive the biggest rewards. However, employees frequently feel that, despite their own self-rated importance and sense of work dedication, this is not the case. For those employed in a marketing-oriented professional service firm, there is a greater likelihood of being able to reach that level of mental equilibrium. Like sales personnel anywhere, the more business the professional person performs, the more credit he can claim. Hence, he can, with some degree of assurance, correlate his individual productivity, defined as billable hours or new business, with his compensation. This direct link between productive work and compensation is not lost on anybody.

The key issue becomes the definition of productive work. Should productive work be measured in effort extended or by specifiable task accomplishments? Such tasks are typically actual billable hours, or new clients who start using the firm due to a single person's efforts. In the case of the latter criteria, are rewards issued on the basis of presentations made or by the number of new clients who actually begin using the firm's products and services? On the one hand, some people could argue that it is important and even necessary to give a number of presentations before expecting any new clients, and therefore the number of presentations alone is the key variable.

This argument is most frequently put forward by people with the active or active-passive behaviour style. These people are prone to see that their efforts are worth rewarding and perceive that the long-term goals of the firm are best served by keeping as many people happy as possible. They see long term goals in terms of building relationships with clients over time. Whoever happens to present when a client "buys," is less important than the fact that several people presented to the clients.

They would argue that it is very difficult and sometimes impossible to determine which presentation or presenter was most influential, that clients are impressed with the firm as a whole (based on their perception of all the professional people), and that individual credit for a particular presentation is less valid than a total team achievement. Thus, they are inclined to reward "effort" almost as much as results.

Other equally experienced management personnel will justly argue that the number of presentations by itself is of limited value. It is the number of clients who actually begin to use the firm following a presentation that should be used as the only valid criterion for productive work. These people suggest that a person who makes a large number of presentations per sale is actually losing a large number of potential clients and clearly is doing something wrong. Effort per se, they argue, and especially this type of effort, should not be rewarded. Only those professional people who deliver tangible, revenue-generating presentations should receive financial rewards. This scenario defines prospective client presentations as a scarce resource and demonstrates that the firm is hurt by poor presentations.

This argument is presented by people with an entrepreneur, aggressive or entrepreneur-aggressive behaviour style. These people are competitive, driven, and focused on the rights and responsibilities of the individual as a sole contributor. They would use professional sports teams (baseball, football, basketball, hockey, etc.) for an analogy. These people would argue that every player on the team earns a solid salary because every player on the team contributes to the overall accomplishment of the team. However, they would also point out that each player is measured by his individual contribution to the team effort.

Moreover, they would suggest that the "better" players earn more money because they make greater individual contributions, and they should be rewarded for those contributions. In order to carry the analogy back to the world of professional services, they would argue that the person who actually signs up an existing or new client for a new project deserves a larger share of any bonus credit for his efforts. These people work on the principle that the results are the most meaningful measure of contribution, and those individual results can be measured in any team activity, including marketing professional services.

These scenarios are not meant to be taken as the only possible means of allocating credit for a sales presentation. However, they are fairly typical of the types of group versus individual rewards that arise in professional services organizations. Both sides of the issue have merit, and both sides raise concerns. The first group-oriented rewards process assumes that everyone is equally skilled, motivated, and disciplined to deliver the best possible presentation. Clearly, this is seldom true.

Conversely, the reward system that reinforces individual efforts can result in a situation where everyone works primarily for their own welfare and seldom thinks of the greater benefit of the group. People can become so focused on gathering their self-described bonus points that they refuse to cooperate with others on even the simplest of tasks. Moreover, once a client does sign a contract, they are more focused on cornering some share of the sales credit than in producing the work to complete the project. So both of these extremes have some inherent problems. A possible solution is to build in joint rewards and to reward individual efforts.

Retention

The relationship of compensation to retention is almost a straight correlation between behaviour style and retention. To the over achiever, the compensation package, however divided between dollars, perks, and benefits, is a direct reflection of the firm's perception of his contribution. He does not work directly for money and in some ways would be offended if someone suggested that this was his motivation. He works for the pleasure of accomplishing his goals. Nevertheless, he expects to be rewarded for his achievements. He will be understanding if he contributes a solid performance for several years and is not directly rewarded for his specific contribution. He will accept the explanation that the firm as a whole had a bad year and that everyone is expected to pull together and build for the future. He will accept and abide by this rule for some time. However, if he sees what he considers to be unwise investments or perks being distributed to others—when he made a definable contribution and was not rewarded—he will leave the firm on principle. Once he announces his resignation, no amount of increased money, prestige, or perks is likely to renew his interest in the organization.

The entrepreneur follows the theory that "behaviour, like water, seeks its own level"—meaning of course, that the more pressure that is applied to the water or behaviour, the higher it will rise. He deliberately places pressure on himself to achieve definable goals. Correspondingly, he expects to be rewarded for having done so. He does not ask for rewards for his efforts, but he can demand payment for his results. He is a money-motivated person and is likely to leave the ship quickly at the first sign of trouble. He is loyal to himself, and he sees no reason to stay with a potentially sinking ship. The only event that assures his retention is the constant flow of compensation.

The active person is an emotionally loyal person. He will remain part of the team for as long as he has personal ties with the firm. He is not especially motivated to stay or leave by compensation alone. For him, it is a matter of making new friends in a new firm that will prove troublesome. "Why should I leave my friends for a few more dollars," he would jovially ask? "To me," he would respond, "the firm is like a home, and I see no reason to leave for a small increment in pay."

The passive person is frequently the last person to leave. An increase in compensation would, to him, entail an increase in responsibility. Generally speaking, this is not a positive inducement. He makes "enough" with the present firm and is not inclined to leave for more money. If the firm is doing poorly, he may be inclined to leave for more security, but money per se is not a prime motivator with him. Also, he is not likely to leave of his own accord even if he is performing poorly. He may have to be terminated. He is afraid of change, and has a difficult time deciding on issues. Action on his part has to be forced.

The aggressive person can be surprising on this issue. If he is also high on the entrepreneur trait, then he will be cleverly calculating his financially optimal time to leave. If he is high on the overachiever or active trait, he can prove stubbornly loyal to the firm. Money will become a secondary issue in retaining him. The opportunity for advancement and an increase in organizational power, perks, and visibility are almost more important to him. He aspires to the corner office—with its attendant status—and only secondarily to the accumulation of wealth and financial security.

The sensitized person is typically thought to be the least interested in compensation of all the behaviour types. On the surface this is true. However, the sensitized person is interested in some idealized notion of fairness with regard to compensation and many other issues. If he feels that he is being deliberately underpaid compared to others in the firm, then he will be sorely tempted to leave. So he is not so much greedy or anxious about making more money for himself, as he is sensitive about being treated as an inferior team member. Almost more than financial compensation, some selected perks, like state-of-the-art equipment, opportunities to attend professional conventions, and an atmosphere that rewards the pursuit of creative ideas, are important to the sensitized person. So although compensation in general, and money in particular, are not of singular importance to him, the sensitized person is affected by the distribution of compensation perks. He wants his self-perceived fair share or he will leave.

The compulsive person projects the same general feelings about compensation as the overachiever. He is concerned with the perceived fairness and validity of the distribution. He is not motivated by money or other benefits alone, and an increase of X percent will not motivate him to stay or leave. However, it is the overall sense of logic and rationality behind the rewards that will tie him to an organization.

9

Perspective of Services Marketing

A SYSTEMS

The systems perspective, a fundamental approach to contemporary marketing thought and action, dominates the content of this volume. The marketing concept and the marketing mix referred to throughout adopt the systems perspective. This introductory chapter analyses the systems approach and its basic methodologies. Both macro- and micro-marketing systems and their elements are considered. The marketing mix is discussed briefly, to provide a framework for understanding the marketing concept and the managerial functions of marketing that follow in this part.

THE SYSTEMS APPROACH

The marketing concept and marketing management philosophy are merely outward manifestations of a basic and important development in marketing. In the past decade, marketing executives have adopted a new perspective. Embracing a systems perspective, they tend to see marketing operations as complete systems. Marketing management is responsible for designing and directing a total system of marketing action to achieve predetermined objectives.

The systems approach is essential for effective decision making, for the utilization of models in marketing, and for the application of computer technology. Systems analysis is a managerial breakthrough, somewhat akin to breakthroughs in various sciences, and has given rise to powerful concepts and tools of analysis.

The systems approach is based on the work of Von Bertalanffy, who is credited with coining the phrase "general systems theory." He conceived of a set of objects, their interrelationships, and their attributes as systems. The objects were merely components of a system. Therefore, any groups of marketing activities and elements that can be delineated physically or conceptually constitute a system.

Marketing systems are collections of entities that form coherent groups. Channels of distribution that coordinate the activities of wholesalers, retailers, and manufacturers, or physical distribution activities resulting from the integration of warehousing, storage, transportation, handling, and inventory activities, are examples of marketing systems. The fact that entities or activities are capable of being understood as a coherent group, rather than as a collection of parts, makes them a system. This conceptual insight has led to the development of new disciplines such as industrial dynamics and systems engineering.

In marketing, the systems approach turns on the central theme that marketing reality occurs in systems. A business, part of it, or its connection with others, can be represented by some suitable system that may culminate in a physical replica, chart, flow diagram, series of equations, simulation model, or just a concept.

The survival and growth of systems is largely determined by the effectiveness of flows and communications. Marketing systems contain "flows" of products, services, finances, and equipment through channels and communications to and from marketplace. Two units of action of a marketing system have been described as "transaction" and "transvection." Transaction focuses — on negotiations and exchange. Transvection represents a unit of action of the whole marketing system, manufacturers, wholesalers, and retailers — the matching of original producers with ultimate consumers.

The systems approach utilizes one type of model — a systems model. This model recognizes a total marketing system that must be supported and reinforced so that the company can survive, adjust, change, and function efficiently. While stressing coordination, it also recognizes conflict and competition among units, the necessity for subsystem concessions, an the fact that resources must be used to maintain the system itself as well as to attain goals.

Marketing managers have the major responsibility of recognizing the relationships among the elements of the systems. The must comprehend their potential combinations, and coordinate and integrate business factors so that goals are achieved effectively. To a large extent the adoption of a systems perspective depends on the individual manager and his perception of the factors of variability in the system, the interaction of inputs, and the predictions of outputs resulting from the inputs.

The development of cohesive groups, however, does not mean that all conflicts are eliminated or that the objectives of all components of the system coincide. For example, although manufacturers, retailers, and wholesalers compose a system, their objectives. may conflict in part. Nevertheless, it is the extent to which objectives are common that lends cohesiveness to systems components. This cohesiveness is more readily achieved among different functions within a firm than among firms. As firms become conglomerates of companies, this distinction tends to disappear. Although the systems-perspective direction tends to prevent sub-optimization, it does not preclude the analysis of subsystems. Since management cannot analyse everything at the same time, it must digest smaller pieces.

Three basic types of equilibrating systems have been delineated, the atomistic, the organic whole, and the in-between loosely coupled systems. In the atomistic system there is a tendency toward equilibrium among separate elements. The organic whole is a system with structured components joined together in a fully determined and inflexible pattern.

In between are the loosely coupled systems — and marketing systems are often of this type. They adapt to the environment by changing objectives, technologies, manpower, and organizational arrangements.

For purposes of mathematical analysis, systems are conceived of in terms of two complementary or conjugate variables — propensity and flow (sometimes termed the intensive and extensive variables) — which provide the basis for a discipline of modeling interacting components. Systems theory facilitates the conceptual uncoupling and detailed analysis of components of a whole system as well as the investigation of the behaviour of the total system based on an analysis of relevant variables.

Table: Selected Systems and Associated Conjugate Variables

	Conjugate Variables		
System Port Variable	**Propensity or Intensive Variable**	**Flow or Extensive Quantity**	**Product**
Electrical	Voltage	Current	Power
Mechanical	Force	Distance	Energy
Mechanical	Torque	Revolutions /second	Power
Structural	Stress	Strain vol.	Energy/unit
Accoustical	Pressure	Particle velocity area	Power/unit
Chemical	Chemical potential particle	Particle density flow	Power/unit area
Thermal	Temperature	Entropy	Energy
Fluid	Area	Velocity second	Volume/
Traffic	Cars/mile	Miles/hour	Cars/hour
Transportation	Tons/shipment	Shipments/month	Tons/month
Economic	Dollars/unit	Units/day	Dollars/day
Inventory	Dollars/item	Items/day	Dollars/day
General	Generalized force	Generalized displacement	Generalized energy

Systems theory can be divided into modeling theory and behavioural theory. The former generates models, whereas behavioural theory deals with the investigation of the behaviour of a system as a function of changes in its structural elements. This ability to join and uncouple components conceptually, to conceive of them as smaller and larger systems, and to consider synthetically the effects of various changes in propensity and flow, is most helpful for problem solving.

What are the propensities and flows in marketing systems? For physical systems, the complementary variables have been defined operationally, and numerical values can be assigned to them-for example, volts and amps. In marketing, this level of analysis and operational definition has not yet been achieved. Conceptually, however, it is useful to think of an advertising or sales system in terms of dollars/viewer, or dollars/customer contact, as the propensity variable, and viewers/sale or customer contacts/sale as the flow.

The use of such analogies and the application of mathematical systems analysis, hold much promise for improving the effectiveness of marketing systems. Systems are often classified as large or small. "The distinction between large and small is rooted partly in the nature of the problems with which marketing scholars are concerned." Marketing men do not think of whole cultures or economies — they think of smaller systems, businesses, households, consumers.

Systems analysis provides:

1. The documentation of marketing systems through a model, diagram, or static representation of various systems. This furnishes management with a perspective of systems components and helps to develop concepts for improving marketing systems.
2. The representation of the total marketing complex in which the interaction of elements is displayed either mathematically, graphically, or physically.
3. Systems simulation, which furnishes a dynamic tool for analysis. Simulation utilizes computers to simulate

different marketing situations and structures. By operating on a mathematical model of a marketing system and modifying various marketing parameters, different policies can be pretested, the interaction among elements studied, and different models evaluated.

4. Systems interrogation, in which the analysis asks why a marketing system behaves as it does. By understanding reasons for behaviour, improvements can be made.

Macro and Micro Marketing Systems

A marketing system contains the following major elements:

1. People and activities concerned with fundamental marketing facets such as the product, price, service, personal selling, brand, and advertising, which are functionally interdependent.
2. Information components, including forecasting, communications, and feedback, which furnish guidance and direction for the system and facilitate adjustments and linkages.
3. Goals, symbols, beliefs, objectives, images, and targets, which evolve from and reinforce systems.
4. Components of the institutional structures, including both direct and supporting agencies, such as distributors and advertising agencies.
5. Control mechanisms concerned with establishing standards and auditing and altering the system.
6. The life space and technological environments that influence marketing and within which marketing occurs.

It presents a *macro* perspective of a marketing system. It shows that internal company resources (such as manufacturing capacity, labour, and finances) are linked with external resources (such as advertising and marketing-research agencies, banks, and transportation agencies) to develop a marketing mix. The purpose of the mix is to satisfy consumer wants and needs and thus achieve corporate objectives (whether sales, profit, rate of return, or image). Communications and feedback help link the system together.

It indicates that corporate welfare and consumer satisfaction are brought together through a network of actors and actions. The internal dimension indicates that the marketing-management concept, referred to as a breakthrough in management thinking, by its very nature incorporates the systems approach to management of the marketing effort. It emphasizes the interrelations and interconnections between marketing and other business elements, recognizes the integration of all components of the marketing programme into a coordinated marketing mix, and requires the establishment of a communications network and linkages of the various functionaries and activities necessary for the accomplishment of marketing missions.

The *micro*-marketing-action system highlights the systemic functions of marketing, to be analysed later. The assessment of opportunity, planning and programming, and the organization and control of marketing, must be undertaken to develop and manage the micro system. The actual system is depicted by the combination and integration of marketing inputs into a product and service mix, a distribution mix, and a communications mix that form a cohesive whole — a marketing mix. This mix is designed to meet the requirements of specific marketing segments or to develop a customer-prospect mix. Favourable purchasing reaction helps to achieve company goals.

Characteristics of Systems

The major characteristics of marketing systems are as follows:

1. *Variable* and *Complex*. Marketing systems are variable in two ways. First, the range of variability among their elements is great. Second, the physical and spatial dimensions of the system are heterogeneous.

Consider the many methods of selling, distributing, and advertising goods, the number of activities performed, the possible combinations of marketing inputs, and the variety of approaches to similar marketing problems. Infinite gradations of components and elements create complex systems of interrelationships, and the vastness of marketing systems is evidenced in the volume of physical goods handled, the types of functions performed, the number of people employed, and marketing costs.

2. *Open Rather Than Closed.* Marketing systems are probabilistic. Their elements are not precisely ordered and sequenced, nor do they interact in set ways. Not definite, rigid, highly specified, completely known, or deterministic, they contain great indecision and uncertainty; chance and probability count heavily in their analysis.
3. *Adaptive.* Marketing systems must constantly adjust to meet changes in the marketplace. A major requisite of effective marketing systems is the existence of complex intelligence networks, including multiple forecast and feedback loops. Forecast loops may be viewed as providing information about the future derived through predictive processes. Feedback is received as a result of marketing research, sales-management reports, and distribution cost-accounting data that supply management with information about the past events. Both types of information are imperative for guiding and directing this system. Marketing systems do not lend themselves to automatic guidance and controls.
4. *Externally Oriented.* They are input-output systems, with outside factors greatly influencing their operation. The marketing inputs can be adjusted by management to achieve desired results within broad ranges. The integration of marketing inputs takes place within the framework of the marketing plans and results in the development of the marketing mix.

5. *Competitive.* Marketing systems are challenged relentlessly by rational competitors that try to destroy, limit, and hinder their effectiveness. As a result, a system constantly changes and continuously adjusts its direction and elements.
6. *Discordant or Dysfunctional Elements.* Conflicts, strains, and tensions are inherent in marketing systems. For example, what is best for manufacturers' policy need not be for wholesalers' or retailers' policy.

Classification of Marketing Systems

The classification and description of marketing systems are largely dependent on the dominant activity being analysed. Is it the model of a physical-distribution system, a marketing-communications system, or a product-development system? Two kinds of systems that have already been referred to are input-output systems and open and closed systems. The former considers marketing outputs derived from inputs; the latter, the extent to which marketing systems contain uncertainty and chance.

Conceptual marketing systems may be delineated from physical systems. In marketing, most systems are conceptual. However, some, such as distribution centres, trucks, railroads, and inventories, are physical. Interestingly enough, most marketing systems extend well beyond the legal boundaries of the firm.

Marketing systems may be classified as small, middle-range, or large. Small systems are intra-marketing systems. They refer to cohesion within the marketing function. The product and service mix and the communications mix are examples. Middle-range systems refer to marketing's cohesiveness with other functional activities within the firm, such as finance or production. Credit and inventory systems are in this class. Large systems focus on the relationships among manufacturers, retailers, and wholesalers, or among us retailers. The macro-system, and voluntary chains, are large systems.

In general, when discrete marketing operations are differentiable, a marketing system may be recognized. When marketing activities are distinguishable and unique, and cannot be managed effectively within existing operating systems, they are perceived as separate systems. Then a system external to existing systems is required to control and service these activities. Thus, a new management system is created. Large systems are comprised of several management systems.

Co-Ordinance and Linkages

Two concepts, c-ordinance and linkages, are fundamental to the integrated characteristics of the systems viewpoint. The first of these reflects the joining of marketing elements and marketing subsystems into a total system. It is internally focused and concerned with the integration of component parts-the interfaces at terminals. Co-ordinance is applied directly to implementation of the marketing mix where advertising, personal selling, product development, physical distribution, channels, pricing, sales promotion, and other marketing factors are integrated to achieve the desired impact on the market place.

Linkages are externally focused, and refer to the joining together of two or more major systems that can and do function as separate, distinct, and independent middle-range or large systems. For example, independent business systems sometimes join together to create a more effective supra-system. Here, the marketing system is comprised of combinations or groupings of individually functioning systems, as in voluntary chains. This concept is also important in the implementation of a total marketing-management concept where linkages of manufacturers, wholesalers, retailers, agencies, and consumers must be achieved. It is the heart of the development of physical distribution systems where transportation agencies, carriers, and distribution facilities are linked together into a total system of action.

There are two linkage levels in marketing systems. The first level links marketing to the external business, environment, often with the aid of many agencies existing outside the firm, such as marketing research agencies, advertising agencies, transportation agencies, and financial institutions. The second links marketing to the other functional activities within the firm, such as finance, production, personnel, purchasing, and accounting.

Meaning for Marketing

What are the implications of the adoption of a systems perspective for marketing? The systems approach provides a good basis for a logical, coherent, and orderly analysis of marketing activity. It stresses linkages inside and outside the firm, the relationships of inputs to outputs, and the significance of feedback and control concepts. It provides a more realistic perspective of marketing activities.

Systems focus attention on broader issues than those usually contained in any one marketing subgroup such as sales or product development. By so doing they add greatly to the formulation of overall corporate and marketing strategy and objectives. Under the systems approach business is seen as an integrated production process — a coordinated whole. Marketing is coordinated with, rather than confronted with, manufacturing or finance.

Systems thinking stress adaptive change and adjustment. It emphasizes the dynamic impact of market environments and the need for corporate adjustment. A decision hierarchy is established, and decisions made at the level of the total system are more important than those at any subsystem level. Thus conflicts and tradeoffs among subsystems are considered. What is best for the whole system need not be for any one department or particular element. For example, decisions about the total marketing budget could be unfavourable to any one department, such as advertising or marketing research.

The systems approach also focuses on man-machine relationships. It encourages the development of integrated man-machine systems working together to achieve predetermined goals (this falls in the realm of cybernetics). The approach also recognizes that resources must be allocated to maintain the system itself. For example, resources must be spent on planning, research, and organizational analysis to maintain marketing systems, as well as on tools to achieve goals directly.

The Analysis of Marketing Systems

Four categories of concepts from general systems theory have particular relevance for analyzing marketing systems. They are descriptive factors, regulation and maintenance factors, change factors, and decline and decay factors. Descriptive factors refer to concepts that distinguish among and help classify systems structures, elements, and processes — such as interfaces, edges, boundaries, interdependence, inputs, and outputs. Regulation and maintenance factors, as internal factors, deal with systems stability, equilibrium, feedback, regulation, homeostasis, and communication.

Change factors, which are externally induced, deal with the internally generated responses of systems to environmental changes and include adaptation, plasticity, elasticity, learning, growth, and dynamics. Decline and decay factors focus on the disintegration and breakdown of systems and are concerned with overloads, disturbances, dysfunctioning, stress, and degeneration.

Marketing systems are evaluated by various groups, each having its own perspective. Questions may be raised about the appropriate structural forms that marketing systems should adopt. Survival and systems effectiveness are the ultimate tests, and those elements and arrangements approved by the marketplace over time are best. It is evident that systems suitable at one period in a market may not be at another, and a posture of continuous adjustment should be taken by management.

The systems model does not attempt to predict or understand why individuals behave as they do. Emphasizing the components of marketing systems, such as households and firms, it does not emphasize individual consumption behaviour, which is extremely important. This is a definite limitation of the systems approach.

Table: Evaluating a Business as a System

Segment	Criteria
I. *EXTERNAL* **MARKET**	
Society	Contribution to community
Responsibility	
Competitors	Survival
	Market share
	Volume
	Profit
	Image
	Growth
	Innovation
Consumers	Satisfaction
	Value
II. *LINKS*	
Retailers and wholesalers	Profit
	Sales
	Fairness
	Progressiveness
	Marketing aid
Suppliers	Orders
	Payment
	Cooperation
Agencies	Payment
	Cooperation
III. *INTERNAL*	
Management	Goals
	Efficiency
	Salary
	Bonus
Employees	Salaries
	Benefits
	Attitude
Stockholders	Appreciation
	Dividends

Goal Model

The marketing-systems model may be differentiated from a goal model, the former being more realistic and adopting a different emphasis. The goal model starts with a task to be achieved, such as a specified sales volume or profit rate, and focuses on the direct use of profits to achieve it. It implies a direct and even linear relationship between inputs and outputs. A doubling of resources is seen as doubling outputs, which tends to be misleading.

The systems model starts not with the goal, but with a total functioning system that is capable of achieving goals. It recognizes that multifunctional subsystems operate to achieve goals, and that conflicting goals may be present. Conflict and intra-system concessions are therefore anticipated, and the existence of a linear relationship between resources and output is not expected. Resources are employed to maintain and promote the system itself as well as to achieve the goals outlined.

In adopting a systems perspective, management is less likely to assume the viewpoint of one component, so vital to goal achievement such as sales, than to perceive of the broader spectrum. It will see hierarchies of goals ascending from those of the smallest component to those of the total marketing system.

Marketing Mix

A central-systems problem of marketing management is to combine all the marketing elements and resources into a *marketing mix* that will insure the achievement of such corporate goals as profit, volume, image, reputation, and return on investment by satisfying consumer wants and needs. The marketing mix is the result of blending, compounding, and mixing marketing factors into an integrated whole at a particular period of time. It implies that all of the marketing elements have been arranged on a planned basis. The mix is the results of the application of creative skills of marketing management and requires a systems perspective. It results in the total bundle of utilities actually purchased by consumers in selecting products and services, and it is concerned with such factors as price, design, advertising, packaging, and distribution channels. Consumer wants and needs become the basis for developing the mix.

The marketing mix comprises three sub-mixes: the product and service mix, the distribution mix, and the communications mix. *The product and service mix is concerned* with all the elements and ingredients that make up the actual product, from product development through consumer purchases. The mix is concerned with pricing, branding, variety, assortment, product planning, product development, product lines, packaging, labeling, warrantees, and servicing. It stresses the innovative powers of' the firm to change products in order to conform more adequately to consumer wants and needs. It implies that customer specifications are translated into product development and then into the products. The product thus stems from the marketplace and not the production line.

The *distribution mix* is comprised of two sub-mixes: distribution channels and physical distribution. Distribution channels concern the kinds and number of middlemen required to get products and services to the market. The challenge to management is to construct systematic links among institutions in order to achieve a coherent pipeline capable of moving goods and their title to markets. Physical distribution relates to the development of logistical systems. It integrates physical handling, transportation storing, sorting, and distribution of goods in a systematic and effective manner.

The *communications* mix pertains to all the informational and persuasive ingredients used in communicating with the marketplace. It is designed to furnish information to actual and potential customers and members of the distribution system. Included in the communications mix are advertising, personal selling, sales promotion, display, merchandising, and special sales aids.

Marketing managers are continuously being obliged to produce the best total mix of ingredients to meet the demands of both the marketplace and the company. They must develop a system by integrating the three sub-mixes into a whole. An understanding of forces that constrain and influence marketing effort, and at the impact of the interaction of a combination of marketing ingredients, is helpful in achieving this system. Although it may be impossible to determine the optimum marketing mix, it is usually within the realm of reason to develop logical, adequate, coordinated marketing programmes. The marketing mix pivots on planned, focused, and controlled marketing activity dedicated to the satisfaction of customer wants and needs at a profit. It embodies a master marketing plan and the development of operational plans in each of the areas, such as the sales programme, advertising programme, and market development programme.

The marketing mix is not, or should not be, a stable blend. It is, rather, the result of changing the components and varying the proportions of the various marketing ingredients.

In short, the elements of marketing programmes can be combined in many different ways. Or, stated another way, the "marketing mixes" for different types of products vary widely, and even for the same class of product, competing companies may employ different mixes. The difficulties in experimenting and implementing the mix emphasize the art rather than the science of marketing.

For example, in advertising there are a large number of variations in appeals, layouts, designs, headlines, copy media, etc., that make for a very large combination of elements. A product can have various combinations of packages, brands, labels, tastes, and appearances; it can come in various shapes, colours, sizes, and materials, and be offered with numerous services and privileges. It can be promoted through various sales devices, displayed at various levels in the channels of distribution, and sold at varying prices, discounts, and markups. Hence, it is evident that the development of a marketing mix is not a straightforward, simple task. It is to be expected that marketing managers will make errors in selecting an effective mix, and that they will not arrive at the optimum one. It behooves them, nevertheless, to take a logical stand and develop effective marketing strategy through analysis of evidence and information bearing on the impact of marketing factors on sales to the ultimate customer.

The marketing mix must be dynamic. It must be adjusted to the changing forces of the market. Also, the mix for different companies making the same product will vary. Businesses strive to develop the most profitable mix by combining ingredients to produce a total system that conforms to market forces.

In designing marketing programmes, prime consideration should be given to the entire mix rather than arty one segment of it. Marketing success depends on integrating the various elements rather than solely on making decisions about separate marketing activities.

Some general guides can be suggested for developing an effective marketing mix, although it is always a difficult task.

1. A close interrelationship exists among marketing factors, Marketing executives must consider the combined effects of decisions – how decisions made in one marketing area affect other aspects of the marketing mix.
2. A marketing programme must be evaluated and altered over time.
3. Through trial and error, executives must evaluate different: combinations of marketing elements and come up with a programme that will give good, rather than optimum, impact, the realization of an optimum programme being highly improbable.
4. Although the general marketing elements may be common, the variations in product, price, channel, and promotional elements companies can employ to best serve customers vary from industry to industry and firm to firm.

5. In developing the marketing mix, qualitative factors are equally important as quantitative factors.
6. Promotional devices are difficult to evaluate. They are often substitutes for, and can also reinforce, one another.

The selection of specific sales-promotion devices depends on the conditions that will prevail during a future period, and vary with major unforeseen developments such as customer and competitive reaction. The development of an effective marketing mix is a complicated task. It is almost synonymous with marketing planning, since it is concerned with the integration and coordination of all the information required to plan an optimal marketing mix. It is the approach to the establishment of an effective mix that becomes important, rather than the achievement of scientific laws or mathematical models that will guide marketing management to a supposed optimum policy.

Our investigation of consumption forces and consumer behaviour, decision-making, and the managerial functions of marketing that follow all focus on the marketing mix. Consumption factors shape the mix; decisions are made about the individual components and design of each of the sub-mixes as well as the total mix itself; and opportunity assessment, marketing planning and programming, marketing organization, and marketing control are fundamental management functions necessary for the design and maintenance of an effective marketing mix.

The systems perspective has had a profound influence on marketing. It is reflected in both the marketing concept and the marketing mix. Systems analysis has resulted in a managerial breakthrough. Marketing systems are collections of entities that form coherent groups. Macro and micro systems can be distinguished. The macro system relates internal company resources (often the resources of several companies) with external institutions and resources to achieve goals.

The micro system relates managerial activities and internal marketing inputs of a company to market segments to realise goals. Both systems are of course related, but the perspective is different. Marketing systems are variable and complex, open rather than closed, adaptive, externally oriented, and competitive. They contain dysfunctional elements. Systems may be classified on many bases including the domain being analysed, their scale (small, medium, or large systems), and whether they are conceptual or physical systems. To understand them, one should comprehend such concepts as co-ordinancy, linkages, regulation, maintenance, change, decline, and decay factors.

The marketing mix (which is the result of blending, compounding and mixing marketing factors into an integrated whole) comprises three sub-mixes: the product-and-service mix, the distribution mix, and the communications mix. The product-and-service mix is concerned with all the elements and ingredients that make up the actual offering to the marketplace, such as pricing, branding, product development, product variety, product lines, packaging, and warrantees. The distribution mix includes both channels of distribution and physical distribution. The communications mix pertains to all elements used in communicating with the marketplace, particularly advertising and personal selling.

10

Innovation and Market Opportunities

MARKET OPPORTUNITY

For any enterprise, opportunity knocks not twice but over and over again. Changing conditions brought on by changing competition, markets, and technology confront executives with a major and continuing challenge to decide on what specific new business interests to pursue. This is no trivial matter. Unless a company constantly looks ahead, it may as well consider closing its doors altogether. Because the assessment of opportunity is so crucial to the survival of an enterprise, it is one of the most difficult and demanding tasks for marketing executives to cope with. Along with planning, it is the activity most directly concerned with matching corporate resources, present and future, with opportunity.

In particular, the assessment of market opportunity focuses on the identification of company goals and their attainment through action in the marketplace. It considers the environmental factors necessary for implementing the marketing concept, perceives the business of business as creating customers, and so provides a perspective for present and future operations. Opportunity assessment requires a good intelligence system, a sense of corporate mission, management sensitivity and vision, and the executive ability to relate them. The chief marketing officer must develop a vision of what his company's business will be five or ten years hence. He must try to envisage the changes that will occur in markets and the opportunities they will present, and must plan company resources and strategies to capitalize on them.

COMPANY GROWTH

Market opportunity refers not to current demand but to potential demand — demand that can be cultivated. "The ordinary business of marketing is the matching of goods and people. Perhaps its extraordinary business is the matching of possible goods and the potential needs of people." Marketing decisions are concerned with future marketing effort. Determining market opportunities five to ten years ahead involves a prediction not only of economic conditions, but also of sociological, psychological, technological, political, legal, and competitive conditions. In helping to assess future marketing opportunity marketing intelligence and sales forecasting provide valuable aid. The growth of business doesn't just happen; it is within management's power to shape and influence markets. Opportunities arise and disappear as markets grow and decline. "*In essence, there is no such thing as a growth industry*. There are only companies organized and operated to create and capitalize on growth."

Typically, business growth is depicted by a pattern that shows an increase, reaches a limit, and then tends to decline. Although products and markets for particular items will decline, businesses need not. Continued growth becomes possible by properly developing new products that fit assessed opportunities. Market opportunity considerations have resulted in the development of a new industry in the United States — an industry of discovery — the discovery of new technology, new methods, new processes and new opportunities.

Expenditures on research and development have risen sharply recently and resulted in new products and processes. In 1970, the estimated R&D expenditures could exceed $28 billion a year. Opportunity assessment requires the creation of a counterpart to research and development — a function of discovery of new markets and market opportunities that can act as a generator for innovation. This is a key function in a business. It is the driver of a business — the activity by which a business renews itself.

To assure profitable growth, companies must add new products that are tied to different phases of market development. When some products are declining, others should be enjoying market growth. Sometimes this is achieved by a merger; sometimes it is done internally. Regardless, the combination of the total product line as it relates to markets establishes a company's position. Opportunity assessment, therefore, must cover a span of time, and continuously add growth opportunities to a company's present product assortment.

Market opportunity is not automatically assured by either population growth or lower prices. Planned market cultivation through such activities as product development, credit, advertising, or personal selling has an impact on opportunities. Though it is unrealistic to separate the assessment of market opportunity from marketing planning and programming, for discussion purposes we shall treat them in separate chapters.

How does market opportunity interact with the marketing mix? It is through the mix that the culmination of the combination of company resources is offered to the marketplace. Market opportunity should determine the particular kind of mix to be offered. The major decisions on changing product lines or automating production, for example, imply risks and should be made only after assessing market opportunity. Thus, the choice of fundamental policies and strategies, and hence company survival and growth, depend on opportunity. Since company resources are limited, only selected opportunities can be effectively cultivated.

Market opportunities stem from both external and internal forces. Technological developments and changing market environments are externally based, whereas research and development, and modifications of products, packages, marketing channels, and advertising campaigns, are internally based. Opportunity assessment must account for both.

Our rapidly changing technology underscores the difficulty and necessity of assessing marketing opportunity. Technological change creates not only new products but also whole new industries. Consider the impact of lasers, transistors, jets, nylon, or the space programme. "The most important long-term impact of the new space capabilities, is that they open tip a new frontier for exploration and economic development."

Such developments accelerate progress in such areas as electronics, miniaturization, power sources, high-temperature materials, rocket engines, and controls, all of which will have great economic impact. Some may even result in the establishment of totally new industries. The space frontier will expand the risk-taking and thinking of businessmen into vast investments, with greater potential long-time commitments in global and interplanetary space.

Similarly, concern with the pollution of environments will result in further development of "the ecological industries" — industries focused on the maintenance and improvement of environments and the quality of life. The need to dispose of waste and sewage, to reduce auto and plane emissions, to control the contamination of our food, and to cleanse our air and water presents untapped market opportunities. In this decade, billions of dollars will be spent for products and services designed to meet our ecological needs.

Delineating Opportunities

To view market opportunity properly, a company and its products should be seen in their broadest perspective. Extended vision is required to recognize that a company is not in the television business, but is rather in communications. Similarly, a company markets household environments rather than household furniture. When assessing market opportunities, executives are confronted with a spectrum of situations that vary from the relatively easy to the most difficult to assess. At one extreme are those stable, nonperishable items that have a regular demand pattern. At the other extreme are fundamentally new products, or those with high style and high obsolescence factors.

A good system of sensing market requirements provides ideas, information, forecasts, and the evaluation of their potentialities. Salesmen can sometimes provide valuable insights. They are often more intimately familiar with customer reactions, needs, and potentials, and with competitors' impact. They can be sources of new product ideas. The compilation and analysis of their estimates are useful in determining market opportunity.

Often the assessment of market opportunity is achieved through test markets. Yet this can be a hazardous route. The selection of test areas representative of future markets and the development of a normal marketing environment are difficult to achieve. Though testing fundamentally new products is complicated, tests do provide much valuable information about product acceptance and the effectiveness of alternative strategies.

Simulation is a mathematical technique that companies may find useful in assessing market opportunity. It can provide a means for testing the profitability of available alternatives, thereby providing insight into future operations.

The assessment of market opportunity emphasizes that business ventures begin with study of the market, that the future of the business rather than its present or past is the most significant dimension, and that every company must commit itself to change and innovation. Continuous assessment stresses that management does not focus on products or processes that it now possesses. Rather, management becomes concerned with satisfying changing consumer wants and needs, and continuously adjusting company resources to that end.

The assessment of market opportunities involves four stages: recognition of market wants, needs, and developments; projecting them into potential markets; matching them with present and future corporate capabilities; and identifying selected target markets. This indicates that effective opportunity assessment is critical in developing marketing strategy, since that strategy consists of defining targets and developing a marketing mix. Good assessment permits companies to capitalize on differential advantages, and increases the effectiveness of present activities and the business for the future by bringing it into line with potential.

It would be foolish, however, to believe that they all want the same product, or present the same market opportunities. Stereophonic equipment varies in component quality, price, design, and degree of audio fidelity. It is used in broadcasting companies, other commercial institutions, automobiles, and private homes. Numerous market segments exist that together make up the combined market for stereophonic equipment. Each submarket may best be served by a particular variation of a product line. These variations increase the complexity of the marketing operation and seem quite confusing. They are basic to the definition of market opportunities.

Although market opportunities must be conceived in terms of market segments and needs of subgroups, usually several groups can be serviced by a single product. It seems unlikely, however, that a manufacturer will attempt to service a maturing market with only one product. Moreover, a strategy of appealing to every market segment requires too many variations in products and services, especially where market segments are not very large and do not present appealing profit potentials. Thus, markets may go un-serviced, or be totally unsatisfied for a time. However, when producers recognize these market wants and needs, and see in them profitable opportunities, products will be offered.

Marketing opportunity, therefore, is perceived in the satisfaction of market segments that have been defined and afford financial attractiveness. Although it is true that most large manufacturers cater to mass markets, since these offer greater potential for mass production, profitable market opportunity may also be recognized in lesser market segments. Moreover, market segments are not stable, and even though defined, customer wants and needs change continuously. Excellent opportunities exist for the development of profitable new markets. Opportunity assessment should emphasize changing wants, needs, and opportunities. By so doing, a better alignment of a company's marketing mix can be made with profitable market segments.

Change and Innovation

One aspect of our life styles is the acceptance and rewards of beneficial change. In our society change is viewed as useful or good. The result is that companies plan for changes on a regular basis — they programme innovation. Some of the innovations are fundamental; others (such as yearly model changes) are adaptive.

Although innovation may be difficult to define, it includes not merely invention, but also adjustment and adaptation. It stems from the recognition of opportunity to apply a new product or process, or the modification of an old one, to a particular situation. Innovation is the act of introducing newness into a process or product. It involves an idea, its implementation, the actual production of the innovation, and its acceptance by the market. Essentially, consumer reaction determines the success of an innovation. Without acceptance, an invention does not become an innovation.

There are many ways of distinguishing innovations. These are based on degree of importance, breadth of application, and impact. The introduction of absolutely new products, variations of products, extension of new services, new packages, new advertising campaigns, and different pricing arrangements are all innovations. A continuum of innovation exists, ranging from very slight modification to radically new, important developments that give rise to new industries. Viewed from the consumer's perspective, three types of product innovations may be delineated: fundamental, functional, and adaptive.

Fundamental innovations create totally new products that have much greater impact than adaptive innovations. Where totally new products are developed, new industries are created. As a result, fundamental innovation may create a monopoly position within an industry for a period of time.

For such new products, the creation of primary demand is more important than for products that are adaptations. Examples of fundamental innovations are television, airplanes, air conditioners, and dehumidifiers.

In functional innovations, the product or service remains essentially the same, but the method of performing the function is new. Examples are power brakes, electric knives, and gas and electric dryers. Such innovations may require considerable adjustment on the part of consumers.

Adaptive innovations are the least complex and refer to such minor alterations in an existing product as package, colour, design, shape, trim, and size variations. The adoptive innovation does not perform new functions for the user and does not require changes in consumer-use skills or behaviour patterns.

People do not adapt readily to radical innovations, since they require departure from traditional ways of doing and thinking. The result is an important challenge for marketing — to gain acceptance of change. The difficulty decreases as we move from fundamental to functional to adaptive classes.

Basically, marketing is a mechanism for modification. It stimulates competition and generates changes in such factors as products, prices, channels, and advertising to satisfy the demands of dynamic markets. A major responsibility of the marketing manager is the management of change. Marketing managers, therefore, require vision — the vision to see changing opportunities. This necessitates imagination and foresight to sense developments along new frontiers. However, when new frontiers are evident, risks and dangers are also present. For new environments tax resources and technology, planning becomes difficult, and timing and rewards are uncertain.

The management of change implies the management of new market situations, the solution of new problems on a continuous basis. Yet change is often viewed as a threat to existing profitable markets and products. In reality, it is just the opposite. By recognizing profitable opportunities in continuing change, companies overcome threats and achieve growth. To manage change, companies must forecast developments, predict logical consequences, translate them into potential opportunities, and plan to capitalize on profitable alternatives. Marketing management must, therefore, create an atmosphere in which market change is expected, anticipated, and sought. To survive, business systems must adjust to environmental changes, and be flexible enough to adjust to their consequences. New products and services must be planned and developed on a programmed basis. The opportunities inherent in change must become a major focus of executives.

Innovation and Market Opportunity

The assessment of market opportunity is closely linked to the innovative process. Market opportunity encourages innovation and stimulates and extends markets. In fact, the assessment of market opportunity may be considered one of the early phases of the total innovative process. Yet innovation is not equated with market opportunity. Innovation requires the supportive system of marketing resources to cultivate opportunity. Both the stimulation of a continuing flow of ideas and products that can better satisfy wants and needs, and the supply of a marketing system to support them, are requisites of opportunity realization.

A philosophy that competition will prevail is essential for innovation. For management expects new developments to destroy existing product positions. Assuredly, firms want to secure future opportunities and "capture" markets. New products are developed for this purpose. But does innovation result in monopolies, as is often suggested?

Innovations result in two groups of forces, competitive and monopolistic. The monopolistic forces, or the delayed action of competition, offer the innovator incentives to innovate. The competitive features diffuse the benefits of past innovations into the public domain. This puts the innovator under pressure to make further innovations if he is to maintain his competitive advantage and the better-than-minimum profits that go with it. Successful management of innovations must stress the competitive aspect.

Innovation is, then, one of the competitive tools of the business firm. It is a major means of creating a differential advantage, albeit sometimes short-lived. In adjusting to change, and in attempting to meet the demands of the marketplace, it must be managed, and programmed innovation is becoming one of the foundations of business strategy. Programmed innovation is an extremely important process that involves great amounts of resources and effort in promoting and accelerating economic change.

There now exists an innovation industry (research and development) that employs over 800,000 scientists, engineers, and technicians. It is inherently the most dynamic industry of all. The result of R&D is newness and change, and hence market opportunity. Do innovations stem from the assessment of market opportunity or from other factors such as technology? They come from both, and marketing plays a significant role. The National Planning Association's study of 500 innovations suggests that almost 50 percent were strongly influenced by market-related factors such as changing customer requirements, competitive products, and potential markets. Technology actually meets market opportunities.

The Innovation Process

Nine activities of innovation management may be delineated. They are:

1. Acceptance of the inevitability of change and innovation by management.
2. Programmed perception of new market needs and of dysfunctioning in the system.
3. Relating market opportunity to corporate resources.
4. Specifying innovative opportunities of the firm.
5. Identifying practical alternative strategies.
6. Determining the expected profitability of each major strategy.

7. Making a decision on innovative action.
8. Promotion of innovation.
9. Assuring market acceptance of the innovation.

The scope of each is described below.

Acceptance of the Inevitability of Change and Innovation by Management. This is primary and pervasive. Acceptance of the inevitability and necessity of change and innovation in a period of accelerating technology is a basic management and organizational responsibility. The point of view that change is accelerating, normal, and constructive must be held by the leadership of an enterprise. This is essentially a directorship responsibility that requires an awareness on the part of top management of the need for discerning unsatisfied market demands. Top management's tasks include provision of a motivated organization and a permissive environment for innovation. Innovation can not only be encouraged, but also discouraged by top-management attitudes.

Programmed Perception of New Market Opportunities and of Dysfunctioning in the System. The perception of new market needs, future market opportunity, and system dysfunctioning is a prerequisite for business dynamism. This perception grows out of an attitude of dissatisfaction with present performance. Market opportunity and dysfunctioning is recognized by comparing market response to products and services with market wants and needs.

The discrepancy is one measure of innovative and market opportunity. The discrepancy is measured through a combination of various techniques of consumer and market research and managerial judgment and vision. The early stages of the innovation process require people able to perceive areas of human dissatisfaction as market opportunities. One of the major problems confronting corporate management committed to the generation of innovation is to identify, stimulate, and encourage the people in the system who are perceivers of dysfunctioning.

Innovation and creativity do not flourish in overstructured situations. Perceivers can exist among customers and salesmen as well as executives and researchers. Management must plan to broaden the base of perceivers of dysfunctioning by stimulating and rewarding such people wherever they are found in the organization.

Relating Market Opportunity to Corporate Resources

Perception of market needs does not mean that an opportunity exists for any particular company. Available opportunities must be related to the particular company's resources, including its personnel, financial, and physical resources. Profitable courses of action vary with individual corporate postures and goals. The overwhelming majority of innovative opportunities will be rejected. But it is necessary to screen the many to find the few that do relate to the resources and the mission of the company.

Specifying Innovative Opportunities of the Firm

This function of innovation relates to specifying the company's innovative opportunity by identifying the various practical alternatives that exist to remedy the discovered dysfunctioning. This is a job in which the technician can assume a major responsibility. An analysis of total company operations and methods in the light of market opportunities is helpful in sifting the opportunities to arrive at the few that are most relevant and profitable for the company's current situation.

Identifying Practical Alternative Strategies

Having specified the available opportunities, the company is in a position to outline alternative strategies for the profitable pursuit of innovative opportunity. It can thereby indicate various courses of action that could be followed to overcome the market dysfunctioning or to meet a new market need. Determining the Expected Profitability of Each of the Major Strategies. One logical method of selection of the right strategy it to determine the expected dollar values in following each of the practical strategies.

For example, market opportunity might indicate that five products could satisfy market wants at a particular point in time. Each product has inherent advantages and disadvantages, but each is capable of serving market demands. The question becomes one of determining the expected dollar values of each of the five strategies. The expected dollar value is determined by two items.

1. The anticipated dollar outcomes of following each of the five strategies.
2. The estimated profitability of success of each of the five strategies.

Management usually does not know with certainty the likelihood of success of following any given strategy, nor the exact payoff. However, it should attempt to determine specific values for them. A value of this approach is that management is forced to place an expected dollar value on the outcome of each of the strategies. If the objective is to maximize profits, then the decision choice for the innovation becomes one of choosing the strategy with the highest expected dollar value.

Making a Decision on Innovative Action

Once the expected dollar values of alternative decision choices have been arrayed, a logical choice is facilitated. The expected returns, however, must meet corporate criteria before an innovation is adopted.

If the expected dollar return of the best alternative does not meet the rate of return or profit expectations of a company, or if the risk of the alternatives is too high, the innovative opportunity may then be passed up by the company. The opportunity finally selected will determine the specific marketing programme adopted.

Promoting the Innovation

This might be more broadly considered as marketing the innovation to the audience for which it has been designed. It is in this area, for instance, that advertising, salesmanship, and all the elements of the marketing mix must be coordinated to effectively cultivate the particular market. To promote an innovation to the marketplace, a firm must cultivate awareness on the part of consumers, build up its image, and overcome the natural resistance to innovation.

Assuring Market Acceptance of the Innovation. The last stage is the adoption of the innovation. The gradual overcoming of the resistance to change to any innovation becomes the focal point for management effort. Factors leading to possible refinement of the innovation are evaluated through appraisal of information fed back from the market. Such market feedback will enable management to measure market responses to innovation and help to indicate new market opportunities. Market acceptance of an innovation results not in a new equilibrium but in a new situation in which the seeds of further dysfunctioning exist.

It may suggest that different talents are needed at each stage of the process. The skills of the entrepreneur, the manager, the technician, the distribution expert, and the salesman are called for at various action stages of the innovative process.

Perspectives on Innovation

Who recognizes innovative opportunities? Where do innovations come from? They may be perceived and generated by the top management of the organization, as was the case with Polaroid. They may be the conscious results of the research activities of marketing researchers, R&D staffs, and consultants. Many are suggested by customers such as the Government or dissatisfied users; or they may come from sales and operating personnel.

The innovation time scale is collapsing. The time interval from perception of dysfunctioning to acceptance of innovation has been decreasing. This places additional pressure on management to understand more fully the process of managing change and programming innovation through manipulation of knowledge. Innovation approaches manageability when participation in the process becomes part of the continuing responsibility of all levels of management. Management must develop the appropriate environment and set of attitudes to encourage innovation. Only then can a firm hope to deploy its resources most profitably in order to meet the challenge of change.

The innovation interval has three phases:

1. The period before the innovator's gains are felt by his competitors;
2. The time before the competitor makes an effective response; and
3. The interval before the competitive response wipes out the aftermath of the innovator's gains.

There is a difference in each interval span for different innovation categories. Fundamental innovations tend to have substantially longer intervals than adaptive innovations. For example, a competitor's response to a price or advertising innovation can be made directly and quickly.

Innovating firms face a range of possible marketing policies. At one extreme, they can choose policies to make the maximum short-run profit and then decide to meet competition as it arises as with a pricing policy of skimming markets. At the other extreme, they can build a solid market position by accepting modest immediate returns and taking a longer period of time to cover their outlays, thus making it more difficult for new entries, as with a pricing policy of market penetration. Between these extremes, they may choose to be reimbursed for their original outlays while still holding a competitive advantage, and then use the advantage to increase volume and build a stronger market position.

From a social perspective, the benefits of various innovations are often challenged. Fundamental innovations that create something new in the physical sense are hailed as beneficial. Adaptive innovations, particularly those that generate psychological values and are based on style or design obsolescence, are often criticized. Yet even the latter are beneficial in a highly industrialized economy. As was suggested in Chapter 1, in an economy of abundance minor product variations and adjustments that increase consumer purchases are beneficial.

SALES FORECASTING

Sales forecasting is related to all entrepreneurial functions, but is most closely associated with assessment of opportunity and planning. It both provides the background and is the result of the former. For the latter, it provides the basic information for plans and programmes.

The sales forecast is concerned with evaluating market and sales potentials. It is the basis for matching marketing resources with future opportunity to achieve company objectives. It affects almost every other phase of business operation and is used in establishing marketing controls, budgets, policies, and directions. Thus, sales forecasts determine the limits of management programmes and decisions. They provide the basis for evaluating the functioning and productivity of various business segments so that future effectiveness can be improved. Opportunity estimates based on sales forecasts truly reverberate throughout the company as coordinating and integrating tools. Sales forecasts are the "drivers" of business — the basic information and control inputs that shape company operations.

Essentially, sales forecasting is a means of providing information about the size, nature, and trend of various market segments, and hence, the anticipated profitability of markets. In reaching opportunity estimates, management has two types of information available: information about the past and information about the future. Information about the past is provided by various feedback mechanisms, such as marketing research, accounting, various corporate records, surveys, published statistical data, and experiments.

This information is referred to as factual and is available from either the company itself or such secondary sources as governmental bureaus, universities, and trade associations. The counterpart of past information is future information.

Future information is available through the sales forecasting process, just as past information is available through the feedback process. Sales forecasts are, of course, based on past data, and result from the application of predictive techniques to past information.

Future data are anything but factual, and are really based on assumptions. Forecasts reflect expectations; as a result, varying degrees of error are bound to occur. Sales forecasts may be short run (usually designated by a period of up to a year), intermediate (one to five years), or long run (more than five years). Usually, the longer run the forecasts, the greater the error.

Regardless of the sophisticated techniques used for forecasting purposes, and the records available, future conditions will always deviate to some degree from those predicted by forecasters, and management must expect this. For the purposes of evaluating market opportunity, future information, even though nonfactual, is extremely important. It guides the destiny of a company. Today's marketing plans and decisions are based on executive expectations of what will occur during some future period of time. To quantify expectations, probability techniques are often used.

When sales forecasts furnish marketing managers with information about probable expected market conditions, management can use this knowledge as a basis for planning both company goals and the strategies and resources to achieve them. The potential volume and profit targets resulting from sales forecasts, and the budgets established from them, guide the company toward the cultivation of market opportunity. The cultivation of opportunities in turn affects sales forecasts.

To make its forecast, sales management must be concerned with three environments: the non-controllable, the partially controllable, and the controllable. The non-controllable environment includes such factors as demographic trends; domestic and international economic trends; and sociological, psychological, and cultural forces that management cannot influence significantly. The partially controllable environment refers to factors such as technology and competition that management can influence to some extent. The controllable environment relates to internal factors, including finances, image, production, facilities, personnel, and others that management can determine over time. As a result of management analysis, judgment, and evaluation, market opportunities are discerned, sales forecasts prepared, and marketing plans and programmes developed.

Table: A Total Sales-forecasting Programme

Stages of Process	Techniques	Results
Assembling Information		
Recognize non-controllable and partially controllable business environment	Observe and list significant external factors	Identification of pertinent cultural, social, economic, political, demographic, competitive, ethical, international techn-ological forces.
Gather information about non-controllable and partially controllable forces	Investigate outside sources of information industry, university	Selection and gathering of data from government,
research, Federal		
		Reserve Board,
	company records	
Gather information about controllable forces	Investigate company records	Selection of relevant company forecasting
	information	
Evaluating and Projecting Data		
Analyse data	Apply analytical tools: timeseries analysis, least squares, simple correlation, multiple correlation, input-output tables, breakeven charts	Determination of patterns and relationships: lead and lag indicators, cycles, seasonal indexes, trend lines, covariation
Forecast future sales	Employ extrapolation, constant percentage of	Prediction and definition of

ysis, executive opinion,	increase, end-use analysis, sales, unit sales, historical analogy, panel of experts, grassroots techniques, surveys, models, experiments, samples, hunches, judgment, and crystal ball	future dollar maximum and minimum ranges
Operationally Applying Forecast		
Refine sales forecast	Break sales down by volume and profit control units: product lines, territories, customers, salesmen	Establishment of specific sales targets
Translate specific targets into operational programmes controllable	Establish and coordinate plans: marketing programme, production schedules, purchasing plans, financial requirements, personnel needs, plant expansion, capital equipment budgets, inventory levels	Identification of business environment
Auditing the Forecast		
Review forecast	Compare actual and forecast sales regularly and analyse discrepancies	Determination of reasons for deviations
Modify forecast and forecasting procedures	Reevaluate projections and adjust forecasting techniques	More accurate sales forecasting

The first phase that of assembling forecasting information, involves the recognition of the non-controllable, partially controllable, and controllable factors. It results in the identification of external forces that will influence projections and the internal factors that help achieve goals.

The second phase of the forecasting process is concerned with evaluating and projecting the data. Various analytical tools are used to determine the patterns and relationships, the result being the prediction and definition of sales opportunity. Following this, the sales forecast must then be applied operationally.

This results in the establishment of specific targets that are translated into operating programmes such as sales programmes, advertising programmes, and inventory programmes. The reverse procedure is sometimes adopted, whereby management derives a market target and then specifies a sales forecast — hopefully, it is realistic.

The last phase is that of auditing the forecast, which involves reviewing it by comparing actual and forecast sales. It should result in more accurate forecasting and better forecasting techniques.

Both long- and short-range forecasting are part of opportunity assessment. The major difference is the time dimension, the degree of specificity of factors, and the tendency to give more immediate problems greater attention. Long-range forecasting is particularly relevant for growth considerations and general concern with adjustment and survival. It is geared more to future opportunity (for which companies can adjust and prepare), whereas short-range forecasting tends to be more concerned with the immediate operational elements.

Marketing Strategy

Both companies and industries display characteristic developmental patterns that relate to phases of market growth. The assessment of opportunity and the resultant marketing strategies and programmes should be directly related to them. The phases are usually presented in the form of a growth curve.

It distinguishes five market-opportunity phases: entry, establishment, expansion, maturity, and decline; and indicates the kind of opportunity analysis that should go into developing the marketing mix. This chart shows that markets increase slowly at first, and then increase at an increasing rate, reach maturity, and finally decline. The time period for this cycle varies by products.

Consider the difference in cycle among the dress industry, the lumber industry, and the computer industry. Also, different companies choose to enter markets during different developmental phases. Even so, management must be aware that marketing tasks of a phase 1 situation are different from those relevant to phase 4. Although the chart is a gross oversimplification, it does relate market-opportunity phases and tasks.

In the initial phase (market entry), there is no direct competition. The tasks of marketing programmes and strategies are those of gaining initial market acceptance and changing habits. They are concerned with creating primary demands for the product, providing customer and consumer information, identifying market segments, gaining market knowledge, soliciting channel support, and promoting to gain a foothold in the marketplace.

The second phase is characterized by endeavors to establish markets. In this phase, limited direct competition exists, and potential competitors begin to notice the situation. The functions of marketing programmes and strategies are to solidify and extend market footholds and to establish differential advantage. Marketing activities centre around gaining brand acceptance and developing customer loyalty. The attempt is to establish a market niche.

In the third phase, a company focuses on market expansion. As mass markets are developed, increasing direct competition ensues. The tasks of marketing strategies become those of extending and expanding markets and uses, increasing sales volume, and capitalizing on position. Mass marketing plans are put into force. New brands are introduced, more competitors appear, price pressures exist, but the price-cost relationship is favourable and profit opportunities are good.

The fourth phase (market maturity) witnesses keener competition, increasing price pressures, and a profit squeeze. More competitors are in the market. The marketing tasks involve insuring a moderate growth and trying to maintain relative competitive position and market share. Since there are more competitors, there is a great tendency for market shares to decline. During market maturity, downward pressures on price build up, companies segment markets further, product and package variations are initiated in an attempt to maintain some growth, and minor product adjustments become important. Strong use is made of promotional activities to maintain market position.

The last phase, market decline, is one in which the competition is keenest, profits are limited, and new products move in to take over the market. The tasks perceived here are those of retaining whatever profitable market position one can, and preparing to exit from the market. Among the relevant marketing activities are price-cutting, product modifications, promotional pressures, and reorientation to new market opportunities. Marketing should make the companies well aware of new opportunities before decline sets in.

A consideration of market-opportunity phases and related marketing activities indicates that companies enter markets that are in different phases of development. Some companies may be innovators and others may be cut-rate operators that concentrate on phases four and five. The result is that at a point in time, a variety of competitive situations confronts an organization and requires different strategies. When one considers the wide assortment of company products facing various market opportunity phases, and the changes in these markets over time, the complexity of designing marketing programmes comes into sharper focus.

Several empirical investigations have been made of the product life cycle. A study of actual data in 140 categories of nondurable goods leads to the conclusion that the product life-cycle model "is clearly a good model of sales behaviour in certain market situations . . . can be a useful model for marketing planning and intermediate-term sales forecasting." Most graphic representations, however, appear to give the introductory and growth periods at least one half of the product lifecycle time, when in reality the stages of slow growth and maturity seem to account for proportionately more time.

Analysis of Market Opportunities

Various concepts of economic analysis are useful in attempting to evaluate market opportunity. Demand analysis, as we have seen in the discussion of sales forecasts, is particularly relevant. Demand refers to the volume of sales that would occur under various conditions for a product during a period of time. It has several dimensions, such as the demand for a product, the demand for a brand, or the demand of a specific market segment. Market demand, which refers to the demand for a group of products that represent an industry, is distinguishable from company demand and the demand of a control unit.

Company demand refers to the demand for a company's products and relates to market opportunity. Although it is affected by the industry demand level, it is also affected by the use of marketing tools and techniques by a firm to gain a market share. Let us note that corporate effort may also shape the industry demand. Control-unit demand refers to demand at the level of the particular unit utilized for control purposes. The unit may be a product line, specific product, brand, group of consumers or wholesale, or retail outlet. Here, demand refers to purchasing actions of a significant unit.

The term demand, therefore, is multidimensional. Market opportunity is a more specific and narrowly defined term and reflects a more dynamic picture of the demand relationship from the standpoint of the marketing organization itself. It refers to the demand for a particular good and service that a firm can provide. Executive vision is a significant variable in assessing opportunity.

Market opportunity is not a static concept. Rather, it refers to developments over a period of time. The focus becomes changing potentials and the tools used, and costs of expanding markets. Hence, opportunity is directly related to the effective combination of marketing factors.

Several economic concepts are useful in appraising opportunity. Elasticity of demand is usually used to describe price-sales relationships -the change in sales proportionate to a change in price. Elasticity, however, is a broader concept and applies to a relationship between any demand determinant and sales. For example, the promotional elasticity of demand would refer to the percentage change in sales related to percentage change in expenditure on promotions — such as advertising or personal selling. Elasticity is useful in analyzing components of the marketing mix.

The concept of plasticity of demand is distinguishable from elasticity. "Plasticity suggests an enduring change as compared to the immediate but transient response designed by the term 'elasticity of demand.'" It refers to the potentiality for molding and shaping response of consumers. Plasticity suggests that marketing programmes can be effective in shaping market opportunity. It connotes that marketing managers, with their tools, can, to a considerable degree, shape corporate destiny in the market.

The assessment of market opportunity may be viewed essentially as a balancing operation in the firm. It balances marketing and company resources to bring them into line with potential profit. For performing this balancing activity, economic analysis has provided us with the useful tool of marginal analysis. The marginal approach relates production schedules, investment planning, new plant and equipment, and personnel needs to market opportunity. The marginal-cost principle is a guiding criterion.

Marginal costs refer to changes in total costs resulting from producing an additional unit in either the physical or marketing sense. Similarly, for marginal revenue, economics explains that the most profitable position for a company is at the level of output where marginal revenue is equal to marginal costs, for it is there that profits are maximized. (Profits are expressed in terms of long-run rather than short-run profits.) While this is a good guiding principle for the marketing manager, the difficulty is one of obtaining marginal cost and marginal revenue data for the various options.

The marginal concept can be illustrated in such marketing decisions as how many salesmen should be added in a territory; whether additional products should be added to the product line; or how much money should be spent on advertising. It is obviously impossible to obtain precise data concerning the impact of salesmen on sales, products on profits, or advertising on sales revenues. However, approximations can be derived, and management attempts to derive them.

Since the executive lacks complete information about cost and revenue relationships, he might base his best guesses on what the situation is likely to be. By relating expected results from various types of marketing programmes, the marketing manager at least formally recognizes and assesses various factors. A formal treatment of costs will attempt to recognize various relationships, sort out fixed and variable costs, attempt to trace the impact of costs on revenues, and in general, provide a basis for qualitative decision-making that is likely to be superior to haphazard and less formal methods.

Break-even analysis, a planning and control tool, is also useful in assessing market opportunity. It furnishes an estimate of the number of units that has to be sold to break even. Management is then able to assess whether adequate market opportunity exists to cover costs and produce a profit.

Break-even charts focus on cost-revenue relationships. The break-even point is the point at which total revenue and total cost are equal. The firm has neither a loss nor a net income. The sales volume necessary to achieve this state is the break-even volume. If adequate market opportunity does not exist to support at least this volume, a venture is not expected to be profitable. Also, the estimated impact of various kinds of marketing programmes (especially pricing policies) on both costs and revenues can be analysed.

These are but a few of the concepts relevant to the assessment of opportunities. Various aspects of marketing intelligence, and many of the decision tools discussed in previous chapters, are particularly useful. Regardless of the techniques used, marketing management must recognize the pivotal position of this function in shaping and guiding the direction of the total company.

Assessment of marketing opportunity, the first of the systemic functions of marketing (those functions necessary to manage the marketing system), is also the most critical. It deals with both the identification and the means of attaining marketing and corporate goals. It furnishes a perspective for current and future operations. Opportunity assessment requires a good intelligence system, a sense of corporate mission, and management sensitivity to changing environments.

In this chapter the relationship of marketing opportunity to growth and changing environments is investigated. The process of delineating opportunities is identified and innovation is perceived of in terms of market opportunity. Fundamental, functional, and adaptive innovations are distinguished. The key activities in the innovation process are delineated: acceptance of change, programmed perception of market needs, relating opportunity and corporate resources, specifying innovative opportunities and strategies, and evaluating, deciding, promoting, and assuring market acceptance.

Sales forecasting is related to both market opportunity and innovation. It is a key component or driver in designing coordinated marketing systems. The elements of a total sales-forecasting programme include assembling information, evaluating and projecting data, operationally applying the forecast, and, finally, performing an audit. Marketing opportunity is related to both stages in the product-development cycle and the nature of competitive environments. A summary table associates market opportunity phases with company objectives and tasks of marketing programmes.

Index

I

L

M

N

O

P

R

S

T

W