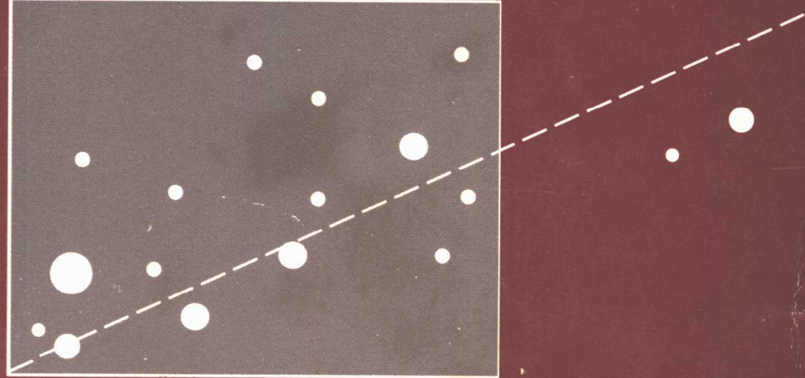
Marketing CLASSICS

A SELECTION OF INFLUENTIAL ARTICLES

sixth edition



BEN M. ENIS • KEITH K. COX

MARKETING CLASSICS

A Selection of Influential Articles

Sixth Edition

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PREFACE

When *Marketing Classics* was conceived, we commented in the Preface:

> Marketing is that phase of human activity that produces economic want-satisfaction by matching consumers' needs and the resources of business firms. From the firm's point of view, consumer-satisfaction is the result of its marketing strategy. Strategy is based on marketing philosophy and is derived from the analysis of consumers and their functional interrelationships with such market forces as economic conditions, competitors' actions, institutional change, and other environmental factors. This volume is a compilation of articles that provide broad insight into the field of marketing.
>
> The authors consider these works to be among the classics of marketing literature. These articles are generally recognized by marketing scholars as being of enduring significance to marketing thought. They are widely quoted, have led to new directions in marketing research, and reflect the views of influential scholars. Consequently, these are works with which serious marketing students should be familiar and to which they should have ready access. We believe the book will be a useful supplement to advanced undergraduate courses in marketing management and marketing strategy and to graduate courses in marketing fundamentals and marketing theory. The practitioner might also enjoy having these familiar works in his library.
>
> The articles in this volume were chosen on the basis of extensive research in marketing literature, and the authors were fortunate to obtain the suggestions of a number of colleagues. Nevertheless, it would be presumptuous to imply that we have compiled *the* classic works of marketing. Marketing is too rich, too complex, too diverse a discipline to be subsumed in one volume. Our selections reflect our own perceptions of and biases about marketing. . . .

The sixth edition of *Marketing Classics* reflects our continuing attempt to match this concept to the needs of marketing students. Responses to questionnaires sent to some adopters of the fifth edition revealed that this anthology is used in a variety of courses, ranging from introductory marketing to doctoral-level seminars, in the United States, Canada, Europe, South America, Africa, and the Pacific Rim countries.

This edition includes several new articles that have stood the test of time and deletes a few genuine classics that our research indicates for various reasons are no longer frequently assigned to students.

Again, we are most grateful to the authors and publishers who granted permission to reprint their work. This literally is their book. We appreciate comment and criticism on our selections. Many readers have returned questionnaires or sent letters to us over the years. We particularly thank this time Professors Joseph Guiltinan, University of Notre Dame; N. L. Hansen, University of New Hampshire; Roger A. Kerin, Southern Methodist University; Patrick E. Murphy, University of Notre Dame; and Adrian B. Ryans, The University of Western Ontario.

The people at Allyn and Bacon, from editor Jack Peters on down, have been most cooperative and helpful through the years. In spite of all this assistance, errors of omission and/or commission are likely, and differences of opinion as to the nature of marketing classics are inevitable. We are, of course, responsible and would very much appreciate feedback.

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PART ONE

Marketing Philosophy

Any discipline or area of human inquiry is based on a philosophy, a set of principles that provide the rationale for the existence of the discipline. The articles in Part One present a cross-section of the philosophy of marketing.

Levitt's article sets the stage. Perhaps the discipline's most quoted and reprinted paper vividly demonstrates the need for a broad interpretation of the marketing function; this article is the discipline's single best definitive statement. Levitt's thoughts on the continuing relevance of the paper are also included. Wroe Alderson, in his trenchant style, provides an overview of marketing. He envisions the discipline based in the economics of imperfect competition, composed of the problem-solving activities of consumers and firms, and illuminated by concepts from the social sciences.

Robert Keith, president of Pillsbury Company at the time his paper was written, provides the executive counterpoint to both Levitt and Alderson. Philip Kotler and Sidney Levy began the next decade of marketing thought (the 1970s) with the provocative statement that marketing activities were not confined to business firms but had broader applicability to all organizations. Marketing management, they therefore maintain, is a pervasive social activity. Hunt subsequently focused the tools of the philosophy of science on the discipline, devising the three-dichotomies taxonomy of the domain of marketing.

The thinking of Kotler and Levy, illustrated in the article here in Part One as well as several other articles written singly or together, has had a major impact on the marketing discipline. This work was deepened by the rigorous work of their student Bagozzi, who carefully set forth the condition for exchange. A more recent significant contribution to marketing philosophy is Anderson's paper, which links marketing thinking to marketing strategy to marketing planning and the theory of the firm. This is the only paper in *Journal of Marketing* history to win both best-paper awards in the same year.

Marketing Myopia

Theodore Levitt

Every major industry was once a growth industry. But some that are now riding a wave of growth enthusiasm are very much in the shadow of decline. Others which are thought of as seasoned growth industries have stopped growing. In every case the reason growth is threatened, slowed, or stopped is *not* because the market is saturated. It is because there has been a failure of management.

FATEFUL PURPOSES

The failure is at the top. The executives responsible for it, in the last analysis, are those who deal with broad aims and policies. Thus:

The railroads did not stop growing because the need for passenger and freight transportation declined. That grew. The railroads are in trouble today not because the need was filled by others (cars, trucks, airplanes, even telephones), but because it was *not* filled by the railroads themselves. They let others take customers away from them because they assumed themselves to be in the railroad business rather than in the transportation business. The reason they defined their industry wrong was because they were railroad-oriented instead of transportation-oriented; They were product-oriented instead of customer-oriented.

Hollywood barely escaped being totally ravished by television. Actually, all the established film companies went through drastic reorganizations. Some simply disappeared. All of them got into trouble not because of TV's inroads but because of their own myopia. As with the railroads, Hollywood defined its business incorrectly. It thought it was in the movie business when it was actually in the entertainment business. "Movies" implied a specific, limited product. This produced a fatuous contentment which from the beginning led producers to view TV as a threat. Hollywood scorned and rejected TV when it should have welcomed it as an opportunity – an opportunity to expand the entertainment business.

Today TV is a bigger business than the old narrowly defined movie business ever was. Had Hollywood been customer-oriented (providing entertainment), rather than product-oriented (making movies), would it have gone through the fiscal purgatory that it did? I doubt it. What ultimately saved Hollywood and accounted for its recent resurgence was the wave of new young writers, producers, and directors whose previous success in television had decimated the old movie companies and toppled the big movie moguls.

There are other less obvious examples of industries that have been and are now endangering their futures by improperly defining their purposes. I shall discuss some in detail later and analyze the kind of policies that lead to trouble. Right now it may help to show what a thoroughly customer-oriented management *can* do to keep a growth industry growing, even after the obvious opportunities have been exhausted; and here there are two examples that have been around for a long time. They are nylon and glass – specifically, E.I. duPont de Nemours & Company and Corning Glass Works:

> Both companies have great technical competence. Their product orientation is unquestioned. But this alone does not explain their success. After all, who was more pridefully product-oriented and product-conscious than the erstwhile New England Textile companies that have been so thoroughly massacred? The duPonts and the Cornings have succeeded not primarily because of their product or research orientation but because they have been thoroughly customer-oriented also. It is constant watchfulness for opportunities to apply their technical know-how to the creation of customer-satisfying uses which accounts for their prodigious output of successful new products. Without a very sophisticated eye on the customer, most of their new products might have been wrong, their sales methods useless.

Aluminum has also continued to be a growth industry, thanks to the efforts of two wartime-created companies which deliberately set about creating new customer-satisfying uses. Without Kaiser Aluminum & Chemical Corporation and Reynolds Metals Company, the total demand for aluminum today would be vastly less than it is.

Error of Analysis

Some may argue that it is foolish to set the railroads off against aluminum or the movies off against glass. Are not aluminum and glass naturally so versatile that the industries are bound to have more growth opportunities than the railroads and movies? This view commits precisely the error I have been talking about. It defines an industry, or a product, or a cluster of know-how so narrowly as to guarantee its premature senescence. When we mention "railroads," we should make sure we mean "transportation." As transporters, the railroads still have a good chance for very considerable growth. They are not limited to the railroad business as such (though in my opinion rail transportation is potentially a much stronger transportation medium than is generally believed).

What the railroads lack is not opportunity, but some of the same managerial imaginativeness and audacity that made them great. Even an amateur like Jacques Barzun can see what is lacking when he says:

> I grieve to see the most advanced physical and social organization of the last century go down in shabby disgrace for lack of the same comprehensive imagination that built it up. What is lacking is the will of the companies to survive and to satisfy the public by inventiveness and skill.[1]

SHADOW OF OBSOLESCENCE

It is impossible to mention a single major industry that did not at one time qualify for the magic appellation of "growth industry." In each case its assumed strength lay in the apparently unchallenged superiority of its product. There appeared to be no effective substitute for it. It was itself a runaway substitute for the product it so triumphantly replaced. Yet one after another of these celebrated industries has come under a shadow. Let us look briefly at a few more of them, this time taking examples that have so far received a little less attention:

Dry Cleaning. This was once a growth industry with lavish prospects. In an age of wool garments, imagine being finally able to get them safely and easily clean. The boom was on.

Yet here we are 30 years after the boom started and the industry is in trouble. Where has the competition come from? From a better way of cleaning? No. It has come from synthetic fibers and chemical additives that have cut the need for dry cleaning. But this is only the beginning. Lurking in the wings and ready to make chemical dry cleaning totally obsolescent is that powerful magician, ultrasonics.

Electric Utilities. This is another one of those supposedly "no-substitute" products that has been enthroned on a pedestal of invincible growth. When the incandescent lamp came along, kerosene lights were finished. Later the water wheel and the steam engine were cut to ribbons by the flexibility, reliability, simplicity, and just plain easy availability of electric motors. The prosperity of electric utilities continues to wax extravagant as the home is converted into a museum of electric gadgetry. How can anybody miss by investing in utilities, with no competition, nothing but growth ahead?

But a second look is not quite so comforting. A score of nonutility companies are well advanced toward developing a powerful chemical fuel cell which could sit in some hidden closet of every home silently ticking off electric power. The electric lines that vulgarize so many neighborhoods will be eliminated. So will the endless demolition of streets and service interruptions during storms. Also on the horizon is solar energy, again pioneered by nonutility companies.

Who says that the utilities have no competition? They may be natural monopolies now, but tomorrow they may be natural deaths. To avoid this prospect, they too will have to develop fuel cells, solar energy, and other power sources. To survive, they themselves will have to plot the obsolescence of what now produces their livelihood.

Grocery Stores. Many people find it hard to realize that there ever was a thriving establishment known as the "corner grocery store." The supermarket has taken over with a powerful effectiveness. Yet the big food chains of the 1930's narrowly escaped being completely wiped out by the aggressive expansion of independent supermarkets. The first genuine supermarket was opened in 1930, in Jamaica, Long Island. By 1933 supermarkets were thriving in California, Ohio, Pennsylvania, and elsewhere. Yet the established chains pompously ignored them. When they chose to notice them, it was with such derisive descriptions as "cheapy," "horse-and-buggy," "cracker-barrel store-keeping," and "unethical opportunities."

The executive of one big chain announced at the time that he found it "hard to believe that people will drive for miles to shop for foods and sacrifice the personal service chains have perfected and to which Mrs. Consumer is accustomed."[2] As late as 1936, the National Wholesale Grocers convention and the New Jersey Retail Grocers Association said there was nothing to fear. They said that the supers' narrow appeal to the price buyer limited the size of their market. They had to draw from miles around. When imitators came, there would be wholesale liquidations as volume fell. The current high sales of the supers was said to be partly due to their novelty. Basically people wanted convenient neighborhood grocers. If the neighborhood stores "cooperate with their suppliers, pay attention to their costs, and improve their services," they would be able to weather the competition until it blew over.[3]

It never blew over. The chains discovered that survival required going into the supermarket business. This meant the wholesale destruction of their huge investments in corner store sites and in established distribution and merchandising methods. The companies with "the courage of their convictions" resolutely stuck to the corner store philosophy. They kept their pride but lost their shirts.

Self-Deceiving Cycle

But memories are short. For example, it is hard for people who today confidently hail the twin messiahs of electronics and chemicals to see how things could possibly go wrong with these galloping industries. They probably also cannot see how a reasonably sensible businessman could have been as myopic as the famous Boston millionaire who 50 years ago unintentionally sentenced his heirs to poverty by stipulating that his entire estate be forever invested exclusively in electric streetcar securities. His posthumous declaration, "There will always be a big demand for efficient urban transportation," is no consolation to his heirs who sustain life by pumping gasoline at automobile filling stations.

Yet, in a casual survey I recently took among a group of intelligent business executives, nearly half agreed that it would be hard to hurt their heirs by tying their estates forever to the electronics industry. When I then confronted them with the Boston street car example, they chorused unanimously, "That's different!" But is it? Is not the basic situation identical?

In truth, *there is no such thing* as a growth industry, I believe. There are only companies organized and operated to create and capitalize on growth opportunities. Industries that assume themselves to be riding some automatic growth escalator invariably descend into stagnation. The history of every dead and dying "growth" industry shows a self-deceiving cycle of bountiful expansion and undetected decay. There are four conditions which usually guarantee this cycle:

1. The belief that growth is assured by an expanding and more affluent population.
2. The belief that there is no competitive substitution for the industry's major product.
3. Too much faith in mass production and in the advantages of rapidly declining unit costs as output rises.
4. Preoccupation with a product that lends itself to carefully controlled scientific experimentation, improvement, and manufacturing cost reduction.

I should like now to begin examining each of these conditions in some detail. To build my case as boldly as possible, I shall illustrate the points with reference to three industries–petroleum, automobiles, and electronics–particularly petroleum, because it spans more years and more vicissitudes. Not only do these three have excellent reputations with the general public and also enjoy the confidence of sophisticated investors, but their managements have become known for progressive thinking in areas like financial control, product research, and management training. If obsolescence can cripple even these industries, it can happen anywhere.

POPULATION MYTH

The belief that profits are assured by an expanding and more affluent population is dear to the heart of every industry. It takes the edge off the apprehensions everybody understandably feels about the future. If consumers are multiplying and also buying more of your product or service, you can face the future with considerably more comfort than if the market is shrinking. An expanding market keeps the manufacturer from having to think very hard or imaginatively. If thinking is an intellectual response to a problem, then the absence of a problem leads to the absence of thinking. If your product has an automatically expanding market, then you will not give much thought to how to expand it.

One of the most interesting examples of this is provided by the petroleum industry. Probably our oldest growth industry, it has an enviable record. While there are some current apprehensions about its growth rate, the industry itself tends to be optimistic. But I believe it can be demonstrated that it is undergoing a fundamental yet typical change. It is not only ceasing to be a growth industry, but may actually be a declining one, relative to other business. Although there is widespread awareness of it, I believe that within 25 years the oil industry may find itself in much the same position of retrospective glory that the railroads are now in. Despite its pioneering work in developing and applying the present-value method of investment evaluation, in employee relations, and in working with backward countries, the petroleum business is a distressing example of how complacency and wrongheadedness can stubbornly convert opportunity into near disaster.

One of the characteristics of this and other industries that have believed very strongly in the beneficial consequences of an expanding population, while at the same time being industries with a generic product for which there has appeared to be no competitive substitute, is that the individual companies have sought to outdo their competitors by improving on what they are already doing. This makes sense, of course, if one assumes that sales are tied to the country's population strings, because the customer can compare products only on a feature-by-feature basis. I believe it is significant, for example, that not since John D. Rockefeller sent free kerosene lamps to China has the oil industry done anything really outstanding to create a demand for its product. Not even in product improvement has it showered itself with eminence. The greatest single improvement, namely, the development of tetraethyl lead, came from outside the industry, specifically from General Motors and duPont. The big contributions made by the industry itself are confined to the technology of oil exploration, production, and refining.

Asking for Trouble

In other words, the industry's efforts have focused on improving the *efficiency* of getting and making its product, not really on improving the generic product or its marketing. Moreover, its chief product has continuously been defined in the narrowest possible terms, namely, gasoline, not energy, fuel, or transportation. This attitude has helped assure that:

> Major improvements in gasoline quality tend not to originate in the oil industry. Also, the development of superior alternative fuels comes from outside the oil industry, as will be shown later.
>
> Major innovations in automobile fuel marketing are originated by small new oil companies that are not primarily preoccupied with