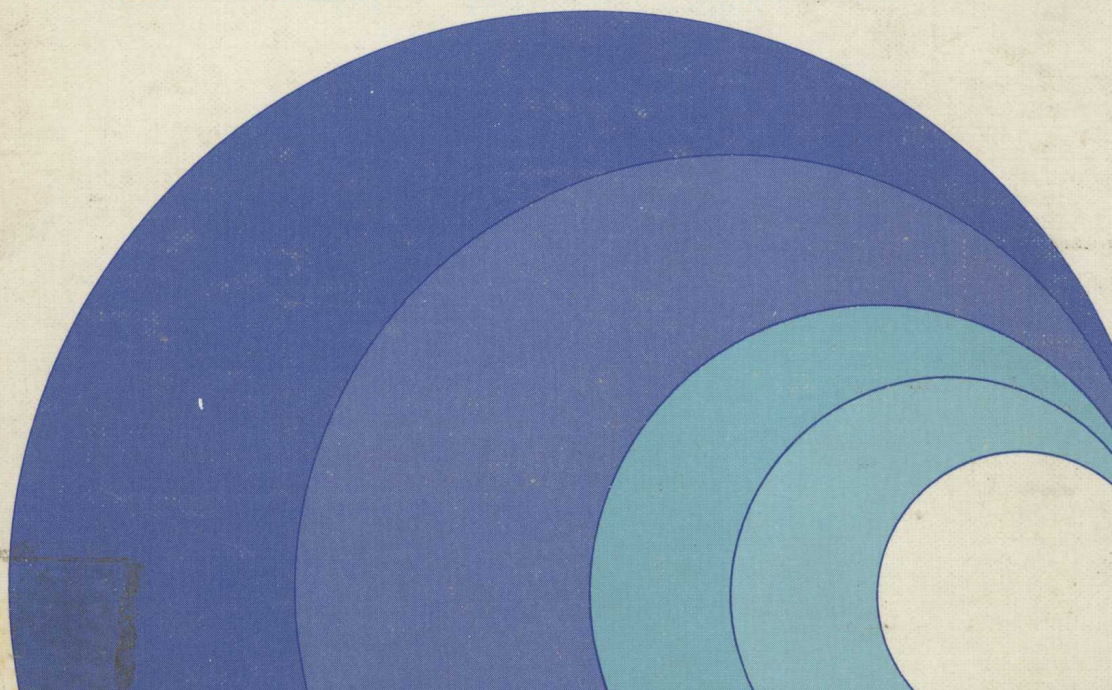


The Marketing
Economy
An Analytical
Approach
Narver/Savitt



The marketing economy

AN ANALYTICAL APPROACH

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HOLT, RINEHART AND WINSTON, INC.

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Dedicated to
Betty Jane,
Gregory, and
Allison Ann Narver and
Naomi Savitt

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The marketing economy

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Foreword

The Advisory Editors of the Holt, Rinehart and Winston Marketing Series are pleased to publish this fresh and distinctive new text in marketing. Drawing on the intellectual heritage of great marketing scholars, such as Alderson, Breyer, Cox, Grether and Revzan, the authors manage to create a long-needed neo-classical synthesis of marketing principles. They see the marketing economy as susceptible to rigorous concepts, definitions, relationships and methods of analysis, all of which are often ignored by the more managerially-oriented introductory texts.

Their book presents marketing as an intellectually important discipline that deserves a place in the *general* education of business and other students in both their intellectual development and training for managerial, citizen-consumer, or public policy responsibilities. As such, it develops the student's understanding in a way that should increase his capability of dealing with social as well as specific managerial issues facing individuals, government agencies, or companies in a marketing economy.

—Paul E. Green

—Philip Kotler

Preface

This book is born from a certain deep-seated frustration. It is the frustration we have experienced both as students and as professors of not having in the literature of marketing a textbook addressing itself solely to the question of *why* of the structure and behavior of our marketing economy. The current and continuing emphasis on marketing decision-making, a “how to” approach has left aside unfortunately most all analysis of the “what” and “why” of marketing.

The present book is addressed precisely to the *why* of marketing, rather than decision-making. The book will serve ideally as a preface to decision-making analysis, or equally well as simply an analytical text—especially suitable for a student’s sole exposure to marketing. Such an analytical, non-managerial text, to our thinking, has long been needed both as a prelude to managerial analysis and simply as a part of a student’s liberal education.

Thus, the book is addressed to the many professors and students in marketing, agricultural economics, and economics departments who have long felt the need for an analytical treatment in marketing that is not oriented to decision-making.

Our basic premise is that an understanding of the marketing economy is a vital part of everyone’s education. We shall briefly discuss our reasoning.

AN UNDERSTANDING OF THE MARKETING ECONOMY

Effecting transactions is the end toward which marketing is directed and is the basis of seller and buyer behavior in our economy. The seller and buyer structures and behavior comprising marketing are extremely complex. Even so, complexity alone does not justify its study. Why is an *understanding* of the marketing economy, as we attempt to provide in this book, important?

Prelude to Enlightened Citizenship and Professional Activity

Every reader of this book is at the minimum an ultimate consumer of goods and services provided by our marketing economy. If any person is to be both an effective consumer and citizen in our democracy, he must insofar as possible, understand the society in which he lives. First, as a citizen, if one understands the major determinants of marketing behavior, he can better judge both firms' actions and governmental economic policies.

Second, a consumer in the marketing economy benefits from a greater understanding of the determinants of marketing structure and behavior. For example, with this background, the reader will better appreciate some of the forces underlying efficiency and prices in the economy. Moreover, he will recognize the possible trade-off between private and social efficiency, for example between sellers gaining some control over demand and supply which may permit them to develop new products and engage in research, and sellers gaining so much control over demand and supply that the pressures for new products, research, and efficiency may be lessened.

Third, beyond the role of citizen and consumer, an understanding of marketing will assist one in any other decision-making in marketing. If one is a manager in a firm, he will have a sharper framework in which to relate his firm's activities both internally and to the environment and ultimately by which to optimize the firm's value. Or if he is involved with public policy in government, a comprehensive understanding of the relationships between his immediate field and other areas in the marketing economy is extremely valuable to him. Or if he is a lawyer in private or government practice, this understanding obviously will provide him keener insight. We could continue, but the preceding examples illustrate the point.

In short, sophistication in marketing is an important element in one's liberal education whereby one becomes a more enlightened member and consumer in our society, and/or from a professional standpoint, is a vital foundation for decision making in private management, the law, or public agencies.

UNIQUE FEATURES OF THE BOOK

Aside from the uniqueness of a short, analytical, non-managerial text, there are several specific features of the book that would appear to have virtually no counterpart in current marketing texts. Specifically, the book:

1. Removes marketing from the unfortunately typical conceptual box in which it is seen merely as "selling in product markets," and broaden the concept to relate to transactions in *any* markets in the economy.
2. Relates the marketing economy of the real world to its intellectual antecedent—the pure market economy.
3. Relates structure and behavior within and between the individual consumer or firm level and the market level. By viewing marketing structures at two levels of aggregation—firm (individual) and market—the analysis permits an explicit relationship between the field of "marketing" and the field of "industrial organization," fields too long artificially separated.
4. Derives a framework for a general theory of marketing structure and behavior.
5. Considers public policy in marketing in a broader context than virtually any other marketing literature, and moreover, focuses on one aspect—antitrust—in more analytical detail than virtually any other marketing text.
6. Devotes substantial emphasis to consumer welfare in today's marketing economy, including such issues as the price discrepancies between branded and non-branded prescription drugs, whether the poor pay more, and whether *abundance* of goods, including by-products such as pollution, necessarily means in total a higher quality of life for consumers.

USES OF THE BOOK

As stated, a short, analytical, non-managerial marketing text permits use in conjunction with a managerial book, *or* provides the basis for a completely non-managerial course. With an eye to both possible uses, we have offered sufficient additional sources including a separately published readings book to satisfy either objective. Among undergraduate and graduate schools of business, as well as economics and agricultural economics departments, we perceive a variety of uses for such a short conceptual marketing text.

A prime area of need for the present analysis is the first marketing

course in graduate schools of business. A closely related area is agricultural economics departments, as their analyses increasingly consider differentiated offerings, concentrated markets, and consumer issues. This book is applicable also in the upper-division level of undergraduate schools of business and departments of economics in which one desires an analytical marketing book for either the introductory marketing course in the junior year or specialized upper-division courses such as marketing theory or industrial organization.

THE SEQUENCE OF ANALYSIS IN THE BOOK

Part I

The Marketing Economy and Some Basic Concepts

Part I introduces and discusses “marketing,” “analysis,” and “theory,” the current state of theory in marketing and approaches to marketing, including what we call the analytical approach.

Then there is an analysis of transactions and want satisfaction in the pure market economy of classical economic theory contrasting it to the real world economy—the marketing economy—and highlighting the several ways in which the real economic world is “incomplete.” The discussion then turns to the institution of sorting, after which, the analysis specifically considers the meaning and some implications of wants, offerings, markets, products, market diversification, and so on.

Part II

The General Structure and Behavior of Marketing

The analysis in Part II begins with a general framework of marketing structure and behavior—a framework that provides a possible basis for a general theory of marketing. It relates firm (or individual) structure to behavior and in turn, to market structure and behavior. By comprehending both firm and market levels of aggregation, the concept “marketing structure,” permits analysis at either level of detail. Subsequent analysis throughout the book retains the structure-behavior framework.

Part III

Buyer Structure and Behavior

The analysis, relating theory and empirical studies, is of the determinants of buyer (demonstrator) behavior. Structure, including several economic, psychological, and sociological dimensions is considered first. The behavior of demonstrators is then analyzed with particular attention paid to buyer learning including both intermediate customers and ultimate consumers.

Part IV

Seller Structure and Behavior

The analysis initially establishes a framework for perceiving firms as sellers. The framework encompasses planning and information-gathering aspects. The subsequent three chapters analyze both conceptually and empirically decisions relating to products and channels, promotion, and pricing.

Part V

Social Perspectives of the Marketing Economy

The section analyzes three important sets of social issues in the marketing economy—productivity and efficiency, public policy, and consumer welfare.

AUTHORS' PERSPECTIVE IN SUMMARY

The present book analyzes the processes and implications of buyers and sellers seeking satisfaction in markets. The analysis is of buyer and seller structures and behavior and the private and social aspects and implications of buyer and seller behavior. The overriding purpose is to create an understanding, a sophistication, of a marketing economy.

Our fundamental hope is that the present book sharpens the reader's analytical perspectives of marketing and through the dual consideration of concepts and empirical findings heightens his understanding of the *why* of real-world marketing structure and behavior.

We have derived the contents of this book through our own teaching and research as well as graduate study. We believe this analytical material constitutes a required minimum for a basic understanding of marketing.

If this book requires some effort on the part of the reader, we hope it is due largely to having to think one's way along. If such is the case we shall be amply rewarded.

Seattle, Washington
Boston, Massachusetts
January 1971

—J.C.N.
—R.S.

Acknowledgments

The present book is the result of a long period of informal discussions, personal class lectures, correspondence, and formal drafts of text material. The authors, one-time classmates at the University of California at Berkeley, in the Graduate School of Business Administration, conceived of the present book in the early 1960s in part from Professor E. T. Grether's careful appraisal of the literature in marketing and analyses in two seminars, and in part from the authors' many intellectually provocative contacts with Professor David A. Revzan. The spirit of this book may be traced essentially to our relationships with this pair of very able scholars. We are unstinting in our respect and admiration for these two tireless and intellectually stimulating professors, both of whom are well versed in the historical development and contemporary literature of marketing, institutional economics, and economic theory.

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Seattle, Washington
Boston, Massachusetts
January 1971

—J.C.N.
—R.S.

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