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A REVISED APPROACH TO MARKETING

John Phillips*

"If I use an analogy or invent a concept, part of what must be tested is whether by this means I can draw attention to real things in the world."

Iris Murdoch, Under the Net

This paper is primarily a plea for a reorientation of marketing research. It is demonstrated that the current concept of marketing is unsatisfactory from an analytical point of view and a reformulation in terms of information is put forward. Information-getting is shown to be a vital aspect of economic activity and one to which a considerable proportion of total resources must be devoted. It is maintained that marketing research should be directed towards this aspect. As a first step in this direction, a partial equilibrium model of information resource use is delineated. Finally, some specific implications of this approach for research are presented.

1 THE PROBLEM AND METHOD

Practitioners of marketing research have long been dissatisfied with progress in their field of enquiry. Some diagnosis of the difficulty has been attempted.¹ However, this has resulted in no useful specific to counteract the condition.

In this paper we contend that the problem is a product of inadequacy in the current concept of marketing. We maintain that the solution lies in a reformulation of the concept in terms of information-getting. We then go on to explore the significance of this statement by examining the role and importance of information in the economic system. Finally, we outline some specific implications for research of this approach.

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¹ See for example F. L. Thomsen, "A Critical Examination of Marketing Research", *Journal of Farm Economics*, Vol. 27, No. 4 (November, 1945), pp. 947-962; R. L. Kohls, "A Critical Evaluation of Agricultural Marketing Research", *Journal of Farm Economics*, Vol. 39, No. 5 (December, 1957), pp. 1600-1609; and W. F. Williams, "Toward Improved Performance in Agricultural Marketing Research", *Journal of Farm Economics*, Vol. 48, No. 3 (August, 1966), pp. 37-52.

2 A CRITICISM AND REFORMULATION OF THE EXISTING CONCEPT

The following definition probably expresses adequately the concept of marketing adopted by most research workers: "marketing embraces all business activities involved in the flow of goods and services from physical production to consumption".² Various classifications of these activities have been made, mainly from a functional point of view. A typical such division comprises: buying, selling, storage, transportation, standardization, financing, risk-bearing, and market information³. Processing is often included as well.

This is a most unsatisfactory concept. That it is so may be argued on two grounds. In the first place, as a theoretical, analytical concept, it is invalid and unproductive.⁴ To be theoretically valid, a concept must refer to a single phenomenon, the essence of the concept. In other words it must embrace a general notion, Plato's *unus ex pluribus*. In the same way, since conceptualization, in a theoretical framework, is the same process as classification, different concepts used in the same theoretical framework should have no common elements just as different classes therein must have no common elements. It is plain to see that the traditional concept of marketing violates this principle.⁵ It refers to two essentially different phenomena, production and information-getting, one of which, production, is a separate class in the universe of discourse. If production is the creation of utility, then there is no essential difference between the manufacture of raw materials—physical production in the above definition—and storage, transport, or transactions themselves. All create utility; hence all are production, by definition. If processing is included under marketing, the discrepancy is even more apparent. To be theoretically useful a concept must accord with the same principle. Usefulness is the correlate of validity. If theory is the relationship among variables (concepts) then, clearly, a single concept which refers to two different phenomena is useless. It is the obverse of using an equation in which the independent variables are intercorrelated.

² This is the definition given in H. H. Maynard and T. N. Beckman, *Principles of Marketing*, (New York: Ronald Press, 1946), p. 3. Other texts give similar definitions.

³ R. L. Kohls, *Marketing of Agricultural Products*, (New York: Macmillan, 1964), pp. 18–19.

⁴ From other points of view, of course, the concept may be a useful one, for example to draw attention to the need for middlemen or as a basis for the allocation of research funds.

⁵ A detailed discussion of these principles is given in M. R. Cohen and Ernest Nagel, *An Introduction to Logic and Scientific Method*, (London: Routledge and Kegan Paul, 1961); Ch. 12, and in W. S. Jevons, *The Principle of Science*, (New York: Dover, 1958), Ch. 27.

Be that as it may, the traditional concept may be discredited, in the second place, on purely pragmatic grounds. The objection here is simply that the concept has diverted attention from what we will show to be a vital and, in terms of resource use, highly significant aspect of economic activity, that of obtaining information. A quick perusal of the literature in marketing research demonstrates the comparatively small attention which has been given to information in the past.

However, in view of the above theoretical objections alone we contend that a reformulation is required: a change in emphasis is insufficient. In our view, the essential aspect of the concept of marketing is the activity of obtaining information. Accordingly, a more restrictive formulation, in terms of information alone, is suggested. Thus economic activity as it concerns us, may be divided, as before, into production and marketing. But marketing is now solely the obtaining of information: production is the creation of utility in response to this information.

We maintain that this reformulation of the marketing concept provides the key to further progress in research. Marketing research has long been stultified by the lack of an appropriate theoretical framework. This concept provides such a framework. It defines marketing as a single, manageable phenomenon of considerable importance and traditionally much neglected.⁶ The remainder of this paper is devoted to an elaboration of the role and importance of this phenomenon. As a first step, the necessity of information in an economic system is demonstrated.

3 THE NEED FOR INFORMATION

Before proceeding further, we must delineate precisely the kind of information to which we are referring. Thus far, for expositional convenience, we have spoken of information in general terms only. But, obviously, information in general encompasses an infinite variety of subject matter. The kind of information we are discussing is *new* information on *wants and supplies*. However, for brevity, we will continue to refer to it simply as "information".

The need for this information derives primarily, of course, from change. In a stationary world, all could be known, and thence the need for new information would be non-existent. As Professor Hayek points out:

So long as things continue as before or at least as they were expected to, there arise no new problems requiring a decision, no need to form a new plan.⁷

⁶ For some previous discussion see G. J. Stigler, "The Economics of Information", *Journal of Political Economy*, Vol. 69, No. 3 (June, 1961), pp. 213-225; also K. E. Boulding and W. A. Spivey, *Linear Programming and the Theory of the Firm*, (New York: Macmillan, 1960), pp. 5-7.

⁷ F. A. Hayek, "The Use of Knowledge in Society", *American Economic Review*, Vol. 25, No. 4 (September, 1945), p. 523.

But in the real world, change is omnipresent. So there is a continual need for new information.

But in an economic system based on specialization, this need is increased considerably.⁸ In a Robinson Crusoe economy or its extension, an aggregate of self-sufficient consuming units, there would only be the need to anticipate changes in wants. Moreover, these changes in wants could be ascertained internally; there would be no need to refer outside the unit. But in a system based on specialization, the separated specialist units, firms, are divorced from each other and from consumers. This not only aggravates the problem of estimating changes in wants but also introduces a new problem, that of determining the projected supplies of all other producers.

It will now be apparent that information is not a free good. It requires the use of resources just as does production. The need for information to assess changes in wants and supplies is ever-present, so part of the group's resources must always be devoted to this end.⁹

We can see more clearly now the basis for the previous division of economic activity into production and information-getting. We see that, within each firm, both these functions must be performed; the one to obtain information, the other to respond appropriately to it.¹⁰ The firm must allocate resources to information as well as to production. The need for information is ubiquitous throughout the system and increases as the degree of specialization.

This view of the economic system contrasts with the traditional view. The traditional neoclassical model is static; the presence of change is assumed away. So the need for new information has been assumed away. Consequently, information has, in the past either been much neglected or ignored altogether. Moreover, in the traditional exposition, the allocative mechanism, the "price system", is a datum requiring no resources to discover or to sustain. In our view, price is but the language of information transmission, an intermediary rather than an arbiter. Resources must always be devoted to reassessing it.

⁸ That production must always be for the future aggravates this problem—the longer the time interval between committing resources to production and sale of the finished goods, the greater the difficulty in obtaining accurate information. However, this has no especial significance for the immediate problem—new information is needed even when production is instantaneous.

⁹ It is obvious that this information on changes in wants and supplies must be resolved into a price estimate by each producer before plans can be formulated. But the information is fundamental and is logically prior to the estimation of a price on which plans can be made.

¹⁰ This statement ignores the fact of specialization in information getting which we refer to in Section 4. In truth, we should substitute "stage of the production process" for "firm". But for expositional convenience the latter term is used here.

Having discussed the need for information in general, we now proceed to point out that there are two aspects of information and to elaborate somewhat on the implications of each.

4 THE TWO ASPECTS OF INFORMATION

At every separated stage of the production process, information must be obtained at two levels. In the first instance, information is required as a basis for the allocation of resources in production. In advance of every decision to produce, estimates must be made of the situation as to wants and supplies when production is complete. This statement applies to long- and medium- as well as to short-run allocation. This is the fundamental aspect of information getting and is the *sine qua non* of efficient resource allocation. We call it *primary information*. But, almost inevitably, when production is complete, expectations based on this information are confounded by changes in estimated wants and supplies. Thus there arises, in the second instance, the need for further information as a basis for disposal of the finished product. We call this aspect, *secondary information*. It is apparent that the need for both aspects applies to primary production, to processing, to storage, to transport and to merchandising. Each firm must decide at the outset how much to produce, to process, to store, to transport and to order. Then, when these processes are complete, new information must be sought on the then prevailing conditions in order to dispose of the goods produced, processed, stored, transported, ordered.

The role of information-getting, in both its aspects, was originally performed solely within the firm, by the owner-operator. The role of obtaining primary information is the essence of the entrepreneurial function; that of obtaining secondary information is the merchandising function.¹¹ Gradually these two functions have become divorced from that of production, by division of labour within the firm and by the formation of separate firms specializing in them. An example of specialization in primary information is the speculative function in futures markets. In secondary information, specialization is, of course, far more widespread—merchants abound. Division of labour in primary information has occurred with the development of the corporation in which suppliers of capital have assumed the entrepreneurial function. They, too, have appointed hired managers to make the more routine decisions, and make only the ultimate decisions themselves.¹² Further

¹¹ This view of the entrepreneurial function differs from the traditional one which sees the entrepreneur as a bearer of uncertainty from which he obtains his reward. It is our contention that this latter view explains only the supply of entrepreneurs, as determined by their subjective attitude towards uncertainty. It is an unfortunate legacy of the "sacrifices"—cost of production theory of value and distribution. In our view, the entrepreneur obtains his reward to the extent that he obtains the correct information, and conversely. The traditional point of view is discussed in F. H. Knight's *Risk, Uncertainty and Profit*, (London: London School of Economics Reprints of Scarce Tracts, 1939), Chs 9–11.

¹² *Ibid.*, Ch. 10.

still, managers have instituted marketing and purchasing sections to provide them with the more detailed information. In the case of secondary information, merchants employ specialists for the same purpose.

It is clear now that the concept of information which we adopt to define marketing is much broader than that included in the traditional delineation of market functions. The traditional concept refers only to secondary information. Our concept refers to both primary and secondary information. We pass now to a brief discussion of the importance of this information in the system.

5 THE IMPORTANCE OF INFORMATION

It is easy to underestimate the amount of resources devoted to obtaining new information and to facilitating its transfer in an economic system. This is due in part to its being personal to the seeker, in part to the fact that its division from other activities in the firm is not clearly differentiated or readily perceptible to the observer.

Although we can make no estimate of the proportion of these resources to the total, a listing of the major individual and institutional devices for obtaining and transferring information shows that the cost is by no means inconsiderable. It will be seen that they include both the services of individuals and of capital. These may be roughly divided according as these apply to primary or to secondary information. The former includes entrepreneurial activities, the employment of directors, marketing and purchasing departments in firms, futures markets, factor markets of all kinds, trade journals and government informational bureaux. The latter includes merchanting activities, all the non-service facilities of retail stores, commodity and stock exchanges, use of tele-communications, trade journals and the informative part of advertising.

Having pointed out the importance of information in an economic system, we go on to outline the principles governing the allocation of informational resources.

6 EQUILIBRIUM IN INFORMATION RESOURCES

The equilibrium level of resources devoted to obtaining information in an industry may be analysed in terms of the demand and supply of information. The analysis presented applies to both primary and secondary information.

The communal demand for information in an industry is a derived demand. It is a function of the differential between the demand price and supply price of the commodity as the equilibrium price is approached, from either direction, divided by the marginal input of information resources in moving the system successively closer to the equilibrium price. It is thus the marginal value product of informational resources. The derivation of the dividend is shown in Figure 1, starting from zero price,

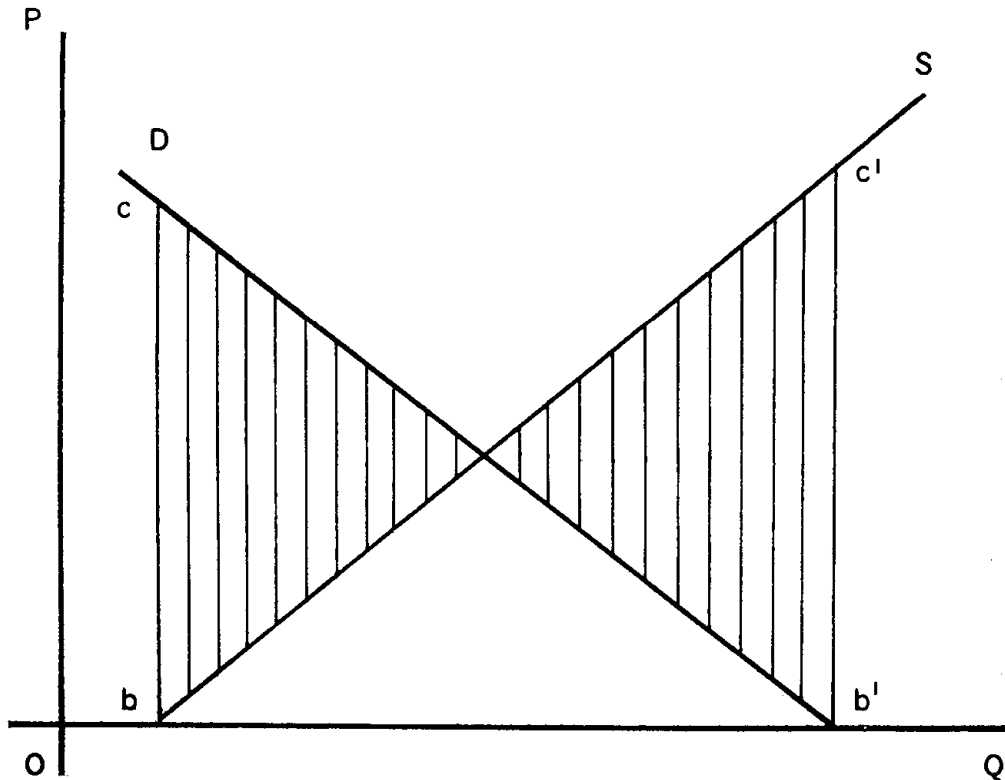


FIGURE 1

when it is bc ($b'c'$) and going to the equilibrium point, when it is zero, from either direction. Thus the marginal value of information decreases as we obtain more of it. Also, the marginal input of information resources can be expected to increase as it becomes increasingly difficult to obtain extra knowledge. Hence the demand curve for information will decline, and at an increasing rate. It is represented in Figure 2.

The supply price of information resources will rise as their opportunity cost rises. In the large, this will result from the withdrawal of resources from production. For owner-operated firms, extra time devoted to information-getting will occasion increasing decrements to output, given diminishing marginal productivity. For larger firms, in which information-getting is more specialized, limitations on resource availability will impose the same effect.

The equilibrium level of informational resource use in an industry occurs when the marginal value product of information resources equals their marginal cost. The equilibrium marginal cost must be added to the marginal cost of production at each level of output when considering the supply price of a commodity which will be so much higher than indicated by the traditional approach.

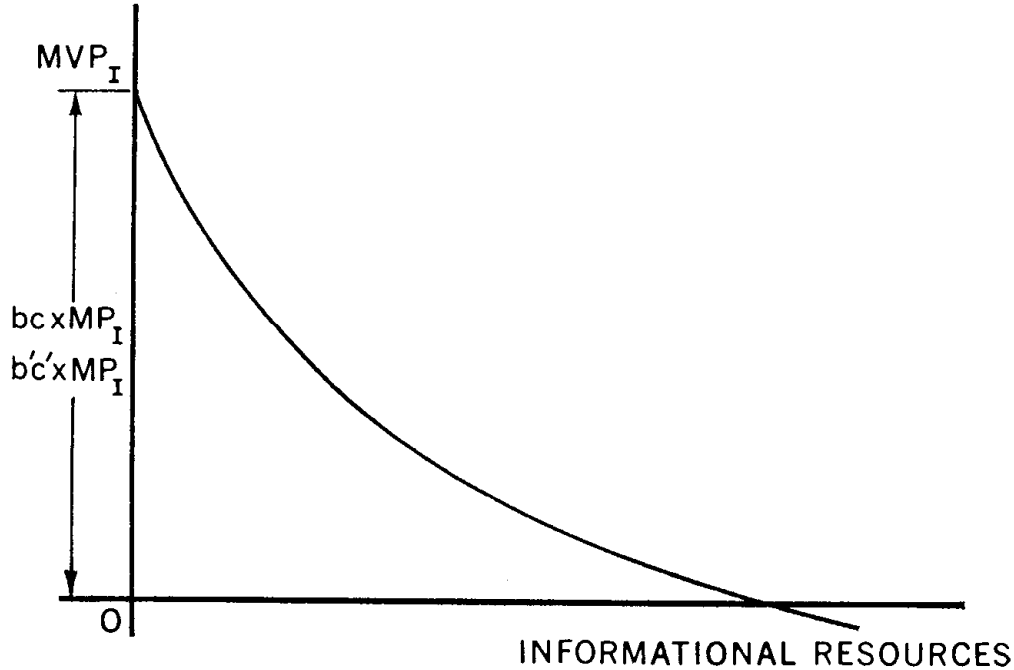


FIGURE 2

7 IMPLICATIONS FOR RESEARCH

The foregoing considerations suggest a revised approach to marketing research. For too long, agricultural marketing research has been preoccupied with problems that are, in fact, production problems.¹³ Not only has this been theoretically unsatisfactory but it has also eclipsed the necessity and importance of new information. To our mind, this is often more important than the allocative problem as such: misallocation from wrong price estimates may well be greater than from inadequate knowledge of production functions. But, because marketing research has given little or no guidance, production economists have had to base their recommendations on the present price or some subjectively estimated distribution thereof. Furthermore, because so very little attention has been given to the use of resources in obtaining information, minimal attention has been given to the efficiency of their use.

Accordingly, a number of avenues for new or extended research are indicated. First we should direct more attention to deriving predictive models and to using their results. Prediction by its very nature is difficult, particularly long-run prediction needed for investment decisions.

¹³ As we have seen, the traditional areas of marketing research—transport, storage, etc.—are problems of production.

But, surely good research can produce better forecasts than can individual producers. A notable example is seen in industries subject to cobweb cycles where the big problem is the individual producer's inability to estimate the aggregate output. Secondly we should examine more intensively the efficiency of resources devoted to obtaining information. One facet is the study of the productivity of these resources in individual industries, by firms and by Government, perhaps using the conceptual model presented. Another important and much neglected field is the vertical transmission of information through the production chain. A further area is the efficiency of various institutional mechanisms for information transmission, particularly organized markets.