Are We Teaching the “Science of Transactions”?

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The paper reviews the evolution of marketing reflecting on the significance of the exchange process. Although the discipline evolved with exchange as the primary focus the author suggests that a new paradigm is overdue. Needs satisfaction has emerged in the literature as the primary focus of marketing replacing the earlier focus on the exchange process.

Introduction

Marketing academicians enthusiastically debated the domain of marketing in the late 60’s and 70’s. The primary focus of the debate was on what type of exchanges should be studied as a part of marketing. As this debate subsided, so did the discussion of marketing as exchange. In fact, in the late 80’s, Ferrell and Lucas (1987) found that practitioners and students frame their concept of marketing in terms of customer satisfaction and promotional activities. Is the debate about exchange resolved, passé or even insignificant?

Day (1992) warns that “[Marketers] tend to stay too long with outmoded characterizations of strategy processes and issues.” This may suggest that it is time that academics re-think what defines marketing. The debate about “what is” marketing should be of relevance to the practitioner and student, as well as the academic. It affects not only the research of marketing as a discipline but the practice of it as well.

The purpose of this paper is to review the evolution of marketing as a discipline, and evaluate the current trends and potential changes for the future. First, this paper will review the history of marketing as defined by exchange. Definitions of marketing from academic journals, and textbooks will be presented followed by an analysis of current literature. Eleven articles will be reviewed and new trends will be identified in the field of marketing. Finally, suggestions will be made for incorporating a new paradigm in marketing education.

Marketing as Exchange

The idea of exchange has been accepted by marketing throughout the history of the discipline. Hunt (1991) notes, that attempts to develop a general theory of marketing are hampered by a lack of formalized language. Disciplines that contain ambiguous terms cannot compare observations of empirical regularities, as researchers may be analyzing different phenomena. The term exchange, although used frequently by marketers, suffers from such a lack of formalization. “The discipline lacks both a coherent conceptualization of exchange and a well-developed theory for explaining exchange.” (Bagozzi, 1979)

Taking an economic perspective, Alderson attempted to quantify exchange in 1965 with his now famous “Law of Exchange.” He concluded that the fundamental purpose of marketing is to effect exchanges by matching segments of demand with segments of supply (Alderson, 1965).

This perspective of exchange and its relationship to marketing has been a fundamental component in the writings of marketing scholars as “most marketers now perceive the ultimate subject matter to be the transaction [exchange of values]” (Hunt, 1976). Kotler (1972) wrote about exchange as “the transfer of ownership or use of an economic good or service from one party to another in return for a payment of some kind.” Authors Houston and Gassenheimer (1987) continued this line of thought in defining exchange as “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.” These traditional definitions are consistent and can be summarized as saying exchange can be commonly understood as a process which involves the transfer of value from one entity to another. This concept of exchange has been and remains the cornerstone for the “adolescent” discipline of marketing.

The Evolution of Marketing

Marketing emerged as a discipline from the field of economics in the early 1900’s. First as a branch of applied economics, where economic exchange is asocial, that is modeled in terms of outcome. At this point, marketing was devoted to distribution. Marketing then evolved into a management discipline, where the focus became the techniques, that is increasing the value of exchange. During this period the purpose of marketing was to generate increasing sales. Now, as an applied behavioral science, marketing is concerned with buyer-seller relationships. This includes a series of personal exchanges that take place prior to the economic exchange (Kotler, 1972). Throughout this evolution scholars have agreed that the “fundamental phenomenon to be explained, predicted, and controlled in the marketplace is the exchange relationship” (Bagozzi, 1979). Yet, the discussion of exchange has been less focused on the definition of exchange than on what types of exchange should be included in the domain of marketing.

Broadening Marketing

Interestingly, the debate about exchange did not argue that a new paradigm should be developed but simply that the definition of exchange as it relates to marketing should be expanded. Kotler and Levy first tried to broaden the original idea of marketing in 1969, by suggesting that every organization uses marketing in some form. This included non-profit organizations that had no tangible product. Their assertions seem consistent with the newer focus of marketing, “customer satisfaction engineering.” Although non-profit organizations may not have a tangible product to exchange, they can in fact provide customer
satisfaction through intangibles. Bagozzi (1974) argued that negative exchanges, such as fraud, and neutral exchanges, such as inventory depletion should be included in any definition of exchange.

Kaufman and Lane (1994) expanded the concept of exchange to an intangible commodity. "We propose that along with money and other resources, consumers also allocate value to time, and there are appreciable costs and benefits that depend on how time is used." Mundt and Garrett (1994) define exchange as including "externalities." They argued that these unexpected outcomes, some of which can be harmful, must be included in the analysis of the exchange process because those who do not participate in the exchange are affected. As marketers continue to debate, what is and what is not exchange, have they lost focus of their primary question? What is marketing?

What is Marketing?

According to the American Marketing Association (1985), "Marketing is the process of planning and executing the conception, pricing, promotion, and distribution of ideas, goods, and services to create exchanges that satisfy individual and organizations objectives." This definition has been widely accepted by practitioners and appears in most Principles of Marketing textbooks. In a 1987 study done by two professors, the AMA definition, compared to five other definitions, was ranked best or second best by 76% of the academics and practitioners surveyed. Eighty-three percent of the students surveyed ranked it as first or second (Ferrell and Lucas, 1987).

The key concept noted by practitioners was consumer satisfaction, whereas academics felt exchange was the most important concept. Definitions emphasizing the customer aspect of business and marketing date back to the 1950's. Peter Drucker emphasized customers in 1954, "There is one valid definition of business purpose: to create a customer." Levitt (1960) also emphasized that successful firms are able to recognize customer needs and endure because of their ability to satisfy that need. In 1965, the marketing faculty of Ohio State University incorporated the idea of satisfied customers into their definition of marketing, "Marketing is the process in a society by which the demand structure for economic goods and services is anticipated or enlarged and satisfied through the conception, promotion, exchange, and physical distribution of such goods and services." (Ferrell and Lucas, 1987). Recent definitions of marketing include satisfaction while maintaining exchange as a key component. "Marketing consists of individual and organizational activities that facilitate and expedite satisfying exchange relationships in a dynamic environment through the creation, distribution, promotion, and pricing of goods, services, and ideas" (Pride and Ferrell, 1993).

Need for a New Paradigm

As educators we must appeal to the pragmatist side of ourselves. When students arrive in our classrooms, they are interested in learning how to become productive contributors in their future corporations. Are multiple definitions of exchange of great significance to their common goal? Perhaps, except for its historical use, the debate of exchange has become a potential part of the archives. Where then should we move? Are we not studying the "science of transactions"?

Although some might argue "needs satisfaction" and "exchange" are equivalent, the two paradigms differ in their perspective. The concept of exchange is firmly based in economic theory. However, satisfying "need" borrows heavily from behavioral theories. While economic exchange focuses primarily on the ultimate transaction attributed to the marketing effort, "needs satisfaction" focuses on the customer and incorporates the newly coined term "relationship marketing." Economic exchange provides a short-term focus on obtaining the sale whereas "needs satisfaction" requires a long-term focus on understanding the customer.

"From an academic or theoretical perspective, the relatively narrow conceptualization of marketing as a profit-maximization problem, focused on market transactions or a series of transactions, seems increasingly out of touch with an emphasis on long-term customer relationships and the formation and management of strategic alliances" (Webster, 1992). Although exchange theory and needs satisfaction may produce similar outcomes, the subtle differences in objectives may result in varying marketing strategies.

The Changing Focus in Marketing Strategy

Eleven articles on marketing strategy were chosen as examples of the current literature. These articles were deemed representative by three faculty especially knowledgeable in the area of marketing strategy. This is not meant to be an exhaustive compilation nor a random sample but rather an example of the focus of current literature.

A review of the 11 articles indicate that emerging trends focus on "needs satisfaction." This author identified four major trends in the marketing literature, 1) the changing role of marketing within corporations, 2) the increased use of behavioral theories in the marketing literature, 3) an increase in collaboration and cooperation, often referred to as relationship marketing and 4) a more turbulent environment due to technological developments. Each of these trends, point to a new focus of marketing on needs satisfaction rather than economic exchange. The question must be asked do the emerging trends reinforce the exchange paradigm or are they leading to new directions.

The Changing Role of Marketing--The traditional role of marketing has been functional, occurring within a corporation, whereas practitioners are in charge of "marketing activities" such as advertising and sales. Marketing can, and should, be playing a greater role in the corporation, as boundaries are disappearing in the strategic planning process. Marketing has long been the advocate of consumers and has included in its role the environmental analysis, two factors that are necessary for successful strategic planning. By maintaining these areas of expertise, marketing can continue to guide corporations in "needs satisfaction." As argued by Webster (1992), "Marketing as a distinct management function will be responsible for being expert on the customer and keeping the rest of the network organization informed about the customer...[marketing] will share responsibility for information management, environmental scanning, and coordination of the network activities."
Behavioral Theories--As marketers discovered that economic theories were not capable of explaining variations of individual purchase behavior, they sought other theories. According to Bergen, et al (1992) "The marketing discipline has a long and productive tradition of creatively borrowing, adapting, and synthesizing constructs from a variety of social sciences."

<table>
<thead>
<tr>
<th>Author</th>
<th>Trend Identified</th>
<th>Underlying Paradigm</th>
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<tbody>
<tr>
<td>Anderson, 1982</td>
<td>Behavioral Theories</td>
<td>&quot;long-term customer satisfaction&quot; Needs Satisfaction</td>
</tr>
<tr>
<td>Davis, et al, 1992</td>
<td>Turbulent Environment</td>
<td>&quot;Firm must concentrate on satisfying customer needs&quot; Needs Satisfaction</td>
</tr>
<tr>
<td>Glazer, 1991</td>
<td>Turbulent Environment</td>
<td>&quot;Information allows customization&quot; Needs satisfaction and exchange theory</td>
</tr>
<tr>
<td>Anderson and Narus, 1990</td>
<td>Relationship Marketing</td>
<td>The goal is satisfaction Needs satisfaction</td>
</tr>
<tr>
<td>Bergen, et al, 1992</td>
<td>Relationship Marketing</td>
<td>Has economic focus, no discussion of customer Exchange theory</td>
</tr>
<tr>
<td>Heide and John, 1992</td>
<td>Relationship Marketing</td>
<td>&quot;unlikely to act opportunistically&quot; Norms of Exchange Needs satisfaction and exchange theory</td>
</tr>
<tr>
<td>Dwyer, et al, 1987</td>
<td>Relationship Marketing</td>
<td>&quot;high quality information on customer priorities and satisfaction&quot; Needs satisfaction</td>
</tr>
<tr>
<td>Webster, 1992</td>
<td>Relationship Marketing</td>
<td>&quot;transactions are out of touch&quot; &quot;emphasis on long-term customer relations&quot; Needs satisfaction</td>
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Relationship marketing, cooperation and collaboration--Exchange theory focuses on the economic transaction as the ultimate goal. This can lead to competitive and opportunistic behavior of businesses as they try to "outdo" each other for the exchange dollar. Yet, recent empirical studies (e.g. Buchanan, 1992; Heide and John, 1992) concluded corporations are not behaving opportunistically but with trust and cooperation. Even in a competitive environment "needs satisfaction" will promote cooperation among competitors as IBM and Apple. Customer satisfaction can better be achieved through collaboration with vendors, customers and competitors.

**Turbulent Environment**--The successful organization of the future will be organized to optimize its information-processing capacity. (Achrol, 1991) This increase in information technology increases the competitive environment as it improves decision making and decreases barriers of entry. (Glazer, 1991; Kerin, et al., 1992) Information itself becomes an asset. It is this overwhelming availability of information that allows for customization while maintaining costs. Customization allows for greater "needs satisfaction."

Identification of the Trends

Each of the selected articles were reviewed and a content analysis was performed (See Table 1). At least one of these emerging trends were identified in 10 of the 11 articles analyzed. Two of the articles emphasized behavioral theories. Four articles emphasized the turbulent environment as part of the need for change. And six of the articles focused on relationship marketing. Whereas exchange theories focus on the economic transaction as a one-time event, behavioral theories have emphasized individual variations that are largely affected by relationships. This emphasis on relationship marketing is an extension of "needs satisfaction." Relationship marketing facilitates an understanding of the customer need and the means of fulfilling those needs.

There was overlap in two of the articles. Perhaps most significant to this discussion was the frequency, two-thirds of the articles, that emphasized customer satisfaction as a key component of the marketing phenomena. Although exchange was identified in 5 articles this appears oddly removed from much of the marketing strategy literature.

Conclusions

Although there is much yet to discover, the field of marketing appears to be passing from adolescence into maturity. No one suggests that the economic models we clung to in our infancy are irreplaceable. Many concepts have developed from pure economic equations into complex theories of behavior. As the definitions and articles presented here indicate, the marketing discipline continues to struggle to define itself. Yet, this quandary is much more apparent in the academic setting where researchers seek to define what exchange is acceptable not if exchange is a useful paradigm. Students and managers are waiting for academics to catch up. Their focus remains, "How do I satisfy the customer need?"

Marketing has evolved from a distribution focus, through an intense focus on profit maximization and transaction theories, to a recognition of the "needs satisfaction" imperative. This change is apparent in the definitions of marketing, through academic literature, and through discussion and surveys of practitioners. The changing role of marketing, and its integration into a corporation, involves a new focus on needs satisfaction.
Academics need to catch up so their students will not be left behind. Update those class notes of exchange to reflect the new paradigm: “satisfy your customers needs.”

References:


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