purposes, exploiting the relationship with the manufacturer for the intermediary's own short-term gains. Unless a manufacturer is a tacit partner in this gray behavior, the manufacturer will need to guard against such behavior. This gray behavior has implications beyond the relationship between the manufacturer and the gray intermediary. It bears on the manufacturer’s relationships with other intermediaries within this channel, in other channels, and with the final customer.

NOTE

1. Molin’s real interest is in studying divorce.

Marketing as a discipline suffers from the same disease that Lenski (1975, 141-42) ascribes to sociology: “[W]e have engaged in a kind of temporal-spatial reductionism, drastically shortening our time perspective, or even ignoring the time dimension altogether . . . , focused increasingly on American behavior and American experience.”

Dholakia, Fimat, and Bagozzi (1980) argue this point, saying that marketing thought is very context dependent. They point out the following:

1. Marketing developed from the viewpoint of the business manager.
2. The business manager is of course responsible for manipulating the various elements of the marketing mix.
3. Since marketing evolved within a capitalist system, it assumed the basic properties of that system as given.

And they are, of course, correct.

It is not surprising that the discipline evolved as it has, and there is nothing to be gained by suggesting that the discipline’s evolution has led us down one path and not another. What we want to do is
to grow in our understanding beyond the bounds described by Dholakia, Frazier, and Bagoozi in 1980.

This book is motivated by the belief that while we have adopted the term exchange when we define the discipline, exchange is not important to the way we conceptualize within our discipline. We say that the exchange perspective is an important pedagogical focus, but it is the managerial focus that has dominated our thinking over the years (cf. McCarthy 1984; Kotler 1991). This managerial focus has been almost exclusively a consumer goods/mass marketing focus since the movement away from the early commodity focus of marketing. As such, the "theory" presented to students does not lay the groundwork for later discussions of industrial marketing and international marketing. In contrast, exchange theory provides a base for subsequent discussions of personal selling, international barter, and consumer franchises, whether earned through mass marketing techniques or long-term interpersonal relationships.

It is the managerial marketer who is especially cheated when we fail to make the discipline more encompassing. We need to prepare for the problems of the year 2000 and beyond, not the problems we faced in the prior decade. One of the best ways to prepare ourselves for living in the future is to escape the context within which we presently live when we learn about marketing. The easiest way to transport ourselves to possible futures is to learn about marketing in other cultures and in other times. One of the best projects we ever assigned a student was an attempt to "internationalize" him by asking him to develop a marketing plan for a Conestoga wagon dealership somewhere in the United States as if he were selling wagons in 1880.

He was suddenly challenged to step into a culture that was foreign to him and to market a product that was unfamiliar. In fact, the student was actually faced with a task that was both unfamiliar and very familiar. The setting was familiar enough after years of television and movies so that stepping into such a world was not a complete disruption. Research for such a project is made easier because university libraries have ready materials to fill in at least a description of the times. This particular student tracked down a history professor who specialized in that era and who was pleased to have someone ask him to be a teacher.

The moral is simply that there are a number of settings into which we can step in order to learn about marketing. We predict that the first professional manager to guffaw at such an idea will be blindsided by the next macroenvironmental discontinuity or will miss the next market trend because he or she could not see it developing.

We, marketers of the future, look to the "good ol' boys" of South Carolina, Maine, and Japan for some of our lessons. We learn about marketing from the baseball card swaps in the schoolyard and from the bartering of Coca-Cola for Yugoslavian wine (Avia). We draw lessons from a wide group of interesting, contemporary marketing practitioners and writers, and we draw on the insights of Aristotle and on the promotional techniques of Moses and John the Baptist.

THE FOCUS OF THE DISCIPLINE

Our discipline grew out of economics, and that growth was motivated by economics' lack of interest in the detail of the exchange process. We inherited from economics our interest in markets, and early attention was on how markets behaved. The new discipline was called marketing. Historically, then, markets have been the focus of the discipline.

During the early stages of theory development, a discipline focuses on the constructs that it seeks to understand; as such, the focus of attention was first on markets, rather than on the forces that gave markets their motive power. As we begin to develop our understanding of the phenomenon of interest, we branch out in our thinking; the discipline becomes less parochial. What originally occupied our attention, such as markets and commodities, becomes less of a focus and begins to act as a fuzzy boundary for our thinking. Today we should not expect markets to be our focal point.

Our focal point can become what we want it to be. Sheth, Gardner, and Garrett (1988) do a systematic job of describing a
variety of foci that exist in the marketing discipline. Each of these schools of thought represents philosophic transsections for our comprehension of marketing. Each does not work to the exclusion of the others. When we argue that exchange should serve as a “hub” for the discipline, it is because other perspectives offer value and are not to be displaced; the hub can serve as a conceptual center and a point of connection among what might be perceived to be disparate research streams, without the loss of that other material.

A general theory of marketing will not be built as if what has gone before never existed. The many schools of thought described by Sheth, Gardner, and Garrett contribute to our general understanding of marketing. The perspective presented in earlier chapters builds from a logical center, the focal point for the discipline. That center is “need satisfaction,” a construct well accepted by many of the schools that have contributed to marketing thought.

In comparing and contrasting the schools of thought described by Sheth, Gardner, and Garrett, we see that the differences among the various perspectives come from several factors. First, differences exist because theoreticians work with differing levels of aggregation. The choice of aggregation level is more a function of which aspects of the marketing process are of interest to the researcher. Asking macro questions about the impact of a particular marketing activity or product does not negate a need-based understanding of marketing.

Second, the schools of thought differ, not because they contradict each other, but because understanding evolves. Commodity-based thinking is representative of the early work of building taxonomies that must take place within a discipline. The taxonomies that came from this work hold meaning for us today.

Sheth, Gardner, and Garrett (1988, 178–79) express concern that exchange theory offers little to address two questions that must be asked of any school of thought. They suggest that any theoretical base must specify “who will or should benefit from marketing activities and practices” and it must provide “a perspective on why marketing activities are carried out” (19). A need-based understanding of marketing is built on the answer to these questions. The heart of the above discussion is that players enter into the picture because they see exchange as one of the ways in which they can improve their situations or, in other words, enhance their potency. Notice that potency enhancement is not the reason for being in marketing; rather, it serves as a means to another end. That end is “need satisfaction.”

BOUNDING MARKETING

Marketers have a need to define the boundaries of their discipline (cf. Luck 1969; Cunningham 1988). We addressed that need by quoting Popper (1962, 67) in chapter 1, who argues that we are students of questions and not bounded territories. If one is asking what is relevant to our study, the answer is “anything.” We should draw our insights from a broad perspective. The marketing discipline has been too centered on the buying behavior of frequently purchased consumer goods by the Ozzie Nelson family. We study toothpaste buying behavior in Peoria during the early second half of the twentieth century. We are very myopic because many see business schools as an extension of commerce. We are a trade school and we are urged to conclude our papers with something called “managerial implications.” We have yet to learn how to learn for the sake of learning; the payoff is that we are good at backcasting, but offer little to those leading their lives in the future.

If the concern over what the boundaries are is really to ask what is legitimate to study, the answer is the same. Until the early 1970s the discipline constrained marketing with the words commercial and for profit. Kotler and Levy’s (1969) greatest contributions to the discipline have been in breaking this tyranny. We study what helps us to understand marketing.

Obviously, if we were developing a taxonomy of animals we would want to be able to ask what is a “bird” and what is not a “bird,” and we would need to agree on what attributes we were going to use in assigning different animals to the bird classification. Recognizing that we have placed mammals outside the category of birds does not mean that we turn away from mammals
when learning about flight. When studying exchange, we will draw our insights from any source we can. In fact, we urge the discipline to encourage people who step outside of the narrow confines that have been so much a part of our research tradition. It has something to do with the external validity of our theory.

This does not mean that everything is exchange, however, and we accept that there is value in identifying the attributes associated with exchange. We have not tried to answer this question directly because (1) we do not have the definitive and complete answer and (2) many other people act as if they do. What is troublesome is that, of those who clearly have their minds made up, their answers do not ring true.

What we can say is that there are different kinds of exchange, just as there are different kinds of birds, and that one class of exchange is made up of strangers engaging in exchanges within established markets and negotiating contractual relationships with those strangers. Some marketers will want to study only exchange such as this; this is not surprising. Limiting oneself to this one kind of bird, however, is likely to bound one’s own understanding of the particular bird. Much of one’s knowledge comes from an examination of the variation across birds that gives insight into the bird of interest. Further, other marketers will not be so narrowly focused or will have their own bird of interest.

Our discussion in the earlier chapters centered on identifying certain behaviors as exchange. We will review several of those here. First, we describe exchange as a response to a need, and exchange is an attempt by the entity to satisfy that need. We use the word entity because we are talking about individuals, families, social organizations, work groups, companies, or any collective with a common set of goals. How or why a collection of individuals arrived at the common set of goals usually falls outside of our area of attention; we would call this either a nonmarketing answer to need satisfaction or in some cases a premarketing answer to need satisfaction.

A topic for investigation for the latter part of the 1990s should be premarketing behavior. Chapter 2 contains a discussion on nonmarketing means of need satisfaction. We briefly mention "changing the entity" as a way of satisfying needs or a necessary ingredient to other ways of satisfying needs. For example, an organization may need new skills before it can do an effective selling job, and those skills may come by merging with an organization with an established sales staff.

The entity can exchange to satisfy current needs or the entity can anticipate needs and use exchange to build potency. Exchange does not need to be temporally coincidental. That is, one can accept value from another without immediate payback. An obligation can be incurred. We will want to distinguish between those exchanges where the obligation contains an explicit description of the obligation due and those that are determined at a future date. The exchange partner need not know what his or her needs are, and, consequently, the explicit payback may be determined only at the time the need arises. Still another class of exchange does not include the explicit recognition of an obligation. (See Figure 6.1.) Yet we will presume to call it an exchange if it allows the first party the right to call on the potency of the other at some later date.

DISTINGUISHING BETWEEN MARKETING AND THE MANAGEMENT OF MARKETING

At least one colleague has bounded marketing by defining it as involving the determination of optimal solutions for managerial problems. Following Kotler's (1967, 1972b) distinction as laid out in his Marketing Management texts, we draw a clear distinction between "marketing" and "marketing management." Kotler has contributed much to marketing's own conceptualization, and therefore it is especially interesting to compare his definition of marketing in the first edition of Marketing Management and subsequent editions.

His original definition of marketing bounded marketing to the managerial side of the track. Marketing consisted of the "evaluation, analyzing, and control of customer-impinging resources, policies, and activities" (Kotler 1967, 12). It was only later that he
began to define marketing as involving those activities that help facilitate and consummate exchange (cf. Kotler 1972b, 12). It was marketing management, or the management of marketing, that dealt with this drive to optimality. Marketing then was any exchange behavior, optimal or poorly thought out. Kotler wrote about marketing management, as the title of his book suggests. Our discussion is broader than Kotler’s.

When we talk about marketing management, we are not necessarily discussing marketing from the viewpoint of a corporate manager. We are talking about the management of the marketing function. We could be examining a buyer making a decision about whether K mart, Sears, or Wal-Mart would best serve his or her needs. This kind of decision making is at the heart of managing the “resources, policies, and activities” of the entity.

To sum up, we need to have a clear distinction between the terms marketing and marketing management. In addition, we need to distinguish words like the marketing concept, marketing orientation, and the marketing process from marketing. The marketing concept (or marketing orientation) argues that a well-managed marketing function subordinates other considerations to give the potential exchange partner what he or she desires. The reason that one takes care of the needs and wants of potential exchange partners is to satisfy one’s own needs. This reasoning does not lead us to ignore externalities. There are constraints on one’s behavior especially as these externalities may impinge on one’s own needs in the future.

As we discussed in chapter 3, other orientations exist and there are good reasons for adopting them. To illustrate, a marketer may make a conscious decision not to address the needs and wants of customers because doing so does not satisfy his or her own needs and wants. That marketer might accept certain customers should they solicit him or her, but in no way would we describe the marketer as using the marketing concept. The marketing function is well managed here, and the consequence is that the marketer is indifferent to the customer.

What we call the “sales concept” and the “production concept” are acceptable approaches to managing the marketing function. It might be tempting to redefine the marketing concept to include the sales orientation or production orientation when they are logical marketing responses. But if we give everything the same name, we will have a difficult time distinguishing among behaviors. Everybody cannot be named Fred, nor do we want to call all birds eagles.

There are some in the discipline who would like to name all successes “applications of the marketing concept”; in turn, all failures are explained as “failures to use the marketing concept.” According to these people, the marketing concept would be merely that which succeeds. We are not the only discipline to suffer from the difficulty. Leontiadis (1989, 72) sees this same problem in the strategic management area in defining whether a diversification successfully tapped into a core business or not. If the diversification works, the newly acquired activity must have been related to the original business expertise; if it fails, the diversification obviously was not into a core business area. In this way, the advice to diversify only into related areas is always good advice, just as it is true that only marketers who use the marketing concept are successful.

Marketing, as distinguished from marketing management and the marketing concept, includes poorly thought out exchange behavior; it includes behavior that we would be reluctant to
describe as managed behavior. While our marketing textbooks emphasize management principles, the management of the marketing function is not synonymous with marketing.

**CHOICE BEHAVIOR AS A BASIS FOR BOUNding EXCHANGE**

Much of what we study in marketing is predicated on the idea that an entity has an immediate need which he or she is addressing or that he or she anticipates some future need. As we discussed earlier, these needs may be resolved by relying on exchange, or some alternative means may be employed. Whether the entity resorts to marketing as the means to solve his or her needs, or resorts to some alternative means of addressing the problem, we usually assume that the problem resolution comes after alternative prospects have been weighed and culled. That is, we assume that decision making concludes with choice behavior.

The following discussion briefly summarizes the Dollard and Miller (1950) conceptualization of choice behavior. This taxonomy serves as a reminder of the breadth of choice situations one can confront and serves as a springboard to examine some related issues. In particular, it allows us to examine the role of marketing in involuntary exchanges.

Dollard and Miller, in describing conflict, categorize an entity’s general behavior when confronted with choice situations. When an entity has one goal with no cost associated with achieving that goal, the situation is not thought of as a “choice” situation. Choices assume at least two competing goals, each of which is likely to have costs associated with achieving it. Notice, though, that it is not necessary that there be costs, other than opportunity costs. Goals can be competing because they are logically exclusionary or because an entity has limited potency and is able to achieve only one and not the other. The scenarios described by Dollard and Miller include the following:

1. Approach-approach behavior

2. Approach-avoidance behavior

3. Double (or multiple) approach-avoidance behavior

The approach-approach scenario assumes that there is no cost associated with any of the choices, but the (single) approach-avoidance or the double approach-avoidance scenario assumes a cost associated with the accompanying reward. An example of an approach-approach decision would be to select between two television programs shown at the same time. An example of an approach-avoidance scenario would be the decision to see the Broadway show “Phantom of the Opera.” Here there is a single goal involving both financial and nonfinancial costs. An example of a double approach-avoidance scenario is the person who contemplates enlisting in the U.S. Air Force or the U.S. Navy. Each offers rewards and each represents important costs, yet selecting one precludes selecting the other.

The scenarios of choice behavior are owed to the early experimental animal work that often involved rats being offered food at the end of a pathway with electric shocks serving as the punishment. It may be best to visualize one of these animals at the beginning point of such a maze as each of these scenarios is described. When the subject is in an approach-approach situation, the conflict is easily resolved. If one reward is clearly more attractive, the subject moves toward it. If the rewards are equally attractive, any movement toward one goal or the other makes that goal more easily achieved, and it becomes the goal of choice. This initial movement toward one of the goals can be happenstance, or it can be the result of some learned behavior or some nuance introduced to the choice process. This approach-approach situation is quickly resolved with one of the alternatives being selected.

The approach-approach conflicts most closely approximate much of the decision-making conflict experienced in selecting among brands for frequently purchased consumer products. Frequently with mature products, alternative brands serve as ready substitutes should the preferred brand be out of stock; as a result, selection among brands can be based on minor cues, suggesting
the importance of heavy promotional activity. Hence, seemingly insignificant promotional activity can be important to tipping the consumer toward one of the equally attractive products.

This seeming call to promotional activity needs a caveat, since the trade-off between advertising dollars and promotion dollars has received considerable attention recently. Our suggested use of promotion in the above approach-approach conflict assumed that the goals were perceived as equally attractive. Advertising can play an important role in establishing worth in the mind of the buyer. Therefore, as long as the manufacturer is perceived as offering equal value, seemingly insignificant promotional activity can be important to tipping the consumer to the manufacturer's product. If the manufacturer passes on the advertising expenditures, he or she eventually will run the risk of failing to be a contender.

The approach-avoidance and the double (or multiple) approach-avoidance conflict situations arise when a cost or a punishment is introduced to the decision-making situation. When costs are recognized, the likelihood that the goal will be achieved will be a function of both the benefits and the costs, and these will not be integrated (Thaler 1985). The likelihood of response to punishment is represented by a function that is different from the likelihood of response to the benefit. The function describing the response to punishment has a steeper slope as the goal-object is approached, while the function describing the response to the benefit is steeper at greater distances from the reward. Put simply, the costs are discounted more than the rewards until the subject comes close to the goal-object, and then they take on greater importance.

When costs are involved, there is no guarantee that one of the alternatives will be selected. Humans do not always buy. In animal studies, if the costs are too great, the subject will retreat; if no retreat or escape is possible, the animal will break down.

At the limit, when the rat is in the maze, hungry, but having been shocked as it approaches the food at the end of the maze, conflict is extreme. Humans, when faced with extreme stress, can be similarly dysfunctional. "A fascinating but frightening observation is that individuals in extreme [prisoner of war] situations sometimes appear to suddenly give up, curl up in the fetal position, and die" (Hunter 1988, 162).

In some instances, there is no alternative to "death"; there may not be an available solution to one's needs, whether in one's own resources and abilities, in those of others, or in the environment. People die waiting for an AIDS cure, waiting for an organ transplant, waiting for simple medical treatments when none is available.

Alternatively, need satisfaction may be available but the ability to satisfy the need may come at a very high cost. Kidnappings, in which satisfaction of the needs of the victim are at the discretion of the kidnapper, can result in affiliation between the kidnapper and victim. Similarly, prisoners of war sometimes show a willingness to give up what would seem to be their basic values to survive. Victims of the Holocaust who survived often did so at great cost.

When a person is confronted by a robber and told "your money or your life," the choice is unambiguous, and yet the decision to comply is voluntary. The example of the robber may not seem to support the notion that a voluntary choice is involved since the victim did not elect to be in the situation. The issue is not whether choice exists; the choice is between "your money or your life." Similarly, if a person is trying to decide whether to have major medical treatment, such as a heart operation or chemotherapy, the alternatives will be weighed and a decision will result, but the patient did not elect to have the disease that required the decision. Similarly, when we examine the decision to buy a chocolate bar, toilet paper, cigarettes, or any other commercial product, the choice has to do with how to resolve the problem and not how the problem came to be.

Blau (1964, 91) presents us with this same example of the armed robber who threatens the victim with physical harm. The victim is offered escape from physical harm in exchange for his or her property. Blau dismisses this as not being worthy of his study; "it seems preferable to exclude the result of physical coercion from the range of social conduct encompassed by the term 'exchange.'"
It is important that we take Blau’s point of view into consideration because his views represent an important source of our insight into exchange. What stands out as we wonder why he might adopt such a position is that Blau is specifically addressing social exchange and not some broader concept of exchange. To Blau, coercive behavior is beyond the range of what he might call social (see also Dixon and Wilkinson 1986, 29). But we are not studying social exchange; we are using social exchange to develop our understanding of marketing exchange, and in marketing we already have a well-developed interest in the use of power to further exchanges and exchange relationships.

It would be easy to dismiss this confusion as a matter of semantics, yet the importance of the role semantics plays in our thinking and behaving is generally recognized. In marketing, Kotler and Levy’s (1969) introduction of a broadened perspective of what marketing is has led to a dramatic shift in the domain we consider germane to our study. If we define marketing as exchange, and we define coercive transactions as not involving exchange, we define a vast body of behavior as not being marketing. We run the risk of excluding the most important choices people make in their lives as being beyond the scope of marketing.

As we examine exchanges, whatever the kind and amount of coercion involved, it is useful to break the exchange into parts so that we distinguish between the need-causing agent and any entity who may contribute to a resolution of the need. If someone takes our hubcaps when we are away from our automobile, and we replace them with new ones from an auto supply store, we have engaged in an exchange to satisfy our need. The thief initiated our need and the auto supply retailer fulfilled the need. Similarly, we might have returned to our automobile to discover our loss, only to be confronted with a person who is willing to sell us what appear to be the lost hubcaps. This is a prospective exchange, just as our transaction with the auto supplier was an exchange, though some of the attributes of the exchange process itself differ. Classifying this behavior as exchange is independent of what caused the need for the exchange.

To recap, Blau is not a marketer and his vantage point differs from ours. Marketers have accepted the importance of the role of coercive power in exchange relationships (e.g., Gaski 1984) and do not see its use as an attribute that necessarily earmarks all associated behavior as distinct from exchange. In addition, the distinctions that Blau draws between exchange and behavior coming as a consequence of coercive power hinge on distinctions that do nothing to help our understanding. Blau has much to say about power and his thinking is central to our own conceptualization about it, but we need not accept his categorization of what is and is not exchange in order to appreciate his other insights.

INSTITUTIONS AS A BASIS FOR BOUNDING EXCHANGE

Much of what we study today as marketing we find set within a well-defined institutional framework labeled the commercial or economic system. In fact, some marketing scholars look to a specific institutional framework as a delimiter for what they identify as the subject matter of marketing (e.g., Luck 1969; Dixon 1978). They suggest that one or more of the following be true of the process under study for that process to fall within the bounds of marketing:

1. A price-setting marketplace must exist.
2. Any passing of value from one entity to another must have a contracted quid pro quo.
3. There must be a well-defined, companion legal institution that will enforce such contracts, as well as protect property rights.

Other scholars find that these bounds define only a subset of the subject matter of interest. Their interest is in exchange behavior, with or without an established, price-setting marketplace, with or without a formally contracted quid pro quo, and with or without institutions designed to protect contracts and property rights.
An institution consists of “sets of rules that establish how group members agree to accomplish universal issues of survival, such as procreation, socialization, and care of the young or distribution of power” (Levin 1984, 217). We may identify a number of seemingly independent “universal issues” to be dealt with, and as we move from society to society, we discover that people have chosen a variety of ways to deal with these universal issues. Across these societies we see that there is an intertwining of issues and institutions. That is, institutions support and are supported by a number of these fundamental issues. The economic system is not independent of other institutions and the need for resource allocation is not solely the province of the economic system. In many cultures, the economic process can be found to be tied to governmental and/or religious institutions. To illustrate this intertwining, we have only to notice that there are a number of societies today in which one’s ability to satisfy his or her own needs is partly tied to political party affiliation.1

Polanyi’s “Aristotle Discovers the Economy” (1957, 64–94) discusses the importance of the economy being embedded in other institutions. While Polanyi does not say this, our interpretation of his observations is that it is the economic force that frequently serves to support these other institutions. The strength of a political or religious institution may lie less in its value system than in its ability to satisfy basic needs and wants. What we characterize as the Protestant ethic is a value system that clearly merges church and work. Further, the church serves the “essential function of reducing transaction costs primarily by enforcing a system of property rights” (Hull and Bold 1989, 5). It also discourages the opportunism that so concerns the transaction cost analysts.

It would be easy to assume that, when no separate economic system exists, exchange is unimportant. Heilbroner (1962, 31), however, makes the point that in each society some logical—in today’s light—institution that serves to allocate scarce resources evolves (see also Carman 1980, 15). And it is this institutional mechanism that defines the manner in which exchange among people takes place.

Polanyi (1957) identifies three modes of resource reallocation within a society: reciprocity, redistribution, and exchange. Reciprocity entails a mutual passing of value between entities but does not contain a legal contract identifying any specific quid pro quo. Custom usually dictates the nature of the value that is returned in such a relationship. Failure to abide by the established pattern is typically enforced through social sanction. This is clearly not marketing behavior in the eyes of some marketing scholars. Redistribution is the taking in and subsequent reallocation of value by a central authority. Again in the eyes of some, this is beyond the bounds of marketing. Polanyi limits the use of the word exchange to those instances where a passing of value involves a contractual relationship with a prenegotiated quid pro quo.

For our purposes, marketing is defined as “the study of potency variation achieved through exchange processes, with exchange being described as the ... transfer of value from one entity’s assortment to another’s assortment for the purpose of enhancing the potency of one’s own assortment” (Houston and Gassenheimer 1987, 8).2 Such a description of marketing and exchange is broad enough to include each of the three modes of reallocation by Polanyi, although “redistribution” deserves special comment.

From the perspective of the individual, acceptance of a redistribution scheme can be a requirement of group membership, and it is assumed that an entity maintains his or her membership in a group because his or her needs are being addressed at some level. Alternatively, we can look at the group as an entity and think of redistribution as describing the entity’s internal reallocation scheme. Each view has its value and, depending on what one is interested in studying, one could adopt either perspective.

Some marketing scholars will roundly criticize the inclusion of reciprocity under some wider exchange umbrella for the reasons already noted. Such criticism arises in part because the image conjured by reciprocity is a semiannual “let’s have a beer with the colleagues” form of reciprocity. The examples that come to mind for most of us are trivial. These examples do not fall outside the bounds of our conceptualization, but we are also talking about
entities for whom reciprocal relationships are a way of life. We can point to individuals within their own society (James and James 1985), where severe social sanctions can be imposed should the participants of this relationship not adhere to the social contract (see, e.g., Southard 1981, 57; Hansen 1981, 70–83), and we can examine this within the keiretsu, the Japanese commercial fraternity (Ferguson 1990; “Can a Kieretsu Work in America?” 1990; “Mighty Mitsubishi” 1990). When we speak of exchange in this work, we refer to an exchange that includes reciprocity as well as negotiated, *quid pro quo* transactions.

The terms of an exchange are set as a result of the interplay of the market; this interplay results from each of the entities in the exchange viewing his or her own interests as resting in the participation of the other entity in the exchange. For example, the Coca-Cola Company participates in an exchange because it helps to satisfy its own needs. Similarly, an individual searching for a beverage is addressing some personal need. Each entity seeks to satisfy his or her own needs, and it is through this attempt at need satisfaction that the terms of exchange are set.

Other organizations that engage in exchange exist but do not seem to depend on a market mechanism; as a result, they fall outside of what some writers see as the purview of marketing. We can see good examples when we look at governmental agencies, such as licensing bureaus. Ostensibly, such agencies have a fixed demand and have no inherent incentive to encourage incremental demand. Further, employees of such agencies often have incentives to discourage incremental demand (Houston and Homans 1977).

Our question here is not whether governmental agencies are effectively managed but rather whether any of their activities can be argued to be marketing. Dixon (1978) points out that simply because some entity uses the marketing decision variables does not necessarily mean that he or she is engaged in marketing. Having made use of the pricing mechanism, the promotion mechanism, and the location and distribution mechanisms is not a sufficient condition for marketing to have occurred. To Dixon (1978, 51), “marketing . . . refers to the social institution which is a means by which the economic system operates.” Subsequently, Dixon and Wilkinson (1986, 32, 33) compare “market exchange” with other forms of exchange and suggest that one distinguishing characteristic of such exchange is that such a market is a “price-making” market where the give and take of the economic transactions establishes the rate of exchange for products. Further, they tell us that other forms of exchange, including social exchange, take place at fixed rates of exchange. In summary, a market is viewed by these authors as a necessary condition for marketing and “price-making” as a necessary characteristic for such a market.

What these authors fail to accept is that the price mechanism is only one of the means of allocation available. It is the one most regularly studied by economists, but this does not make it the sole allocator of products. We might say that there is more than one way to exact a “price.”

In command societies, a financial price is often restricted from free movement but other allocation mechanisms serve that purpose. We hear most often about how queuing represents an important customer cost in such command societies. Similarly, with Western society’s command operations, such as governmental agencies, queuing serves the same purpose of controlling (limiting) allocation (see also Levine 1987). Queuing also is found in for-profit, commercial settings, serving as a way to allocate services and goods that are limited. Examples include movie theaters, barber shops, medical offices, and rock concerts (see also Levine 1987; Schwartz 1975).

In the rock concert market, it is not unusual to see “line-waiters” hired by ticket resellers who resell the tickets at prices far in excess of the prices charged at the box office. Such “scalping” is legal in some states. In addition, product design, or the lack of it, influences the demand for products; promotion also serves as a means of allocating products. See Hollander (1978) for advice to the retailer concerning customer queuing and the use of the marketing mix in periods of shortage. (See also Kotler [1974] and Kotler and Levy [1973].)
Economists have focused on the pricing mechanism, yet this focus does not (and will not) preclude us from accepting the theory and carrying it beyond its reliance on a financial medium.

Price setting is viewed in many societies as foul behavior to be avoided. This aversion is the result of the conflict that is felt to be a part of the negotiation. Many times this conflict results in prices being established outside of the marketplace frequented by most consumers.

Being foul work, price setting is frequently the work of kings and foreigners. Some communities that have depended on trade with others for their well-being have a separate town devoted solely to “international trade” run by people who are otherwise socially distant from the inhabitants of the community (Polanyi 1957, 259–60). Foreign traders can bring their wares to these trading centers and negotiate and consummate their exchanges. It is these negotiations that serve as the basis for local prices since the local traders—that is, the merchants within the community—take only a predetermined markup. In such a society, the in-town marketplace serves as a place where customers can engage in exchange, and even though the price may be established, nonprice issues can still require negotiation (Polanyi 1957, 262). What we have then is a two-stage market situation where price setting occurs in the first stage of the process with the balance of the terms being arrived at within the retail market. It is acceptable (and maybe even necessary) to negotiate price with strangers or foreigners, but not with one’s own.

In summary, marketing takes place within established institutions. Sometimes these institutions are established to facilitate exchange and sometimes these institutions depend on their role in the exchange process for the institution’s survival. There is no reason to believe that all exchange will be found within one such institution. Furthermore, what we call marketing does not depend on there being a price-setting market in which price is expressed in the form of a financial medium. Also, prices can be set in a variety of ways. In different cultures we find price negotiation to be troublesome, and unique ways are found to avoid this problem.

We must remark that the marketing discipline contains a wide variety of perspectives. The last thing we want this discussion to do is to lead to a limitation on what might be appropriate to study. In fact, the motivation is just the opposite: it is our hope that, by better mapping the discipline, a greater respect might exist for those in other parts of the discipline.

Whether or not we call the entity’s behavior exchange must not depend on how the need arose. How one resolves a need and the origins of that need should be considered to be distinct. It is interesting to look at how needs arise, and in fact one of the charges regularly directed at marketers is that they stimulate (create) needs. Yet there is nothing to be gained by distinguishing between exchange behavior and nonexchange behavior as a result of how the need arises. Nor do we want to limit ourselves by trying to find “pure” economic systems when there is every reason to argue that the economic system that is not commingled with other systems is the exception rather than the rule. Yet exchange does assume a number of premises, and these are listed in chapter 1. It is these that set the boundaries of exchange.

**MARKETING DEFINED AS “FOSTERING A CONTINUAL RELATIONSHIP STRESSING MUTUAL BENEFIT”**

Just as some researchers study the skeletal structure of birds, others study their digestion, and still others study birds’ care of their young, there is much to study about exchange. There are researchers who are interested in bird flocking behavior and migratory behavior and the effect pollution has on birds’ quality of life. Even though researchers find bird group behavior interesting, the fact that they are interested in the quality of life of these animals does not alter the animal taxonomy. Similarly, the fact that we have researchers who might investigate market behavior rather than look at individual exchanges, or that we have those who look at exchange as it intertwines with the social fabric, or that we have those who look at the societal aspects of exchange does not alter the need-resolution taxonomy.
Our own view of exchange is micro in orientation. We talk about exchange as something that usually takes place between two entities. This is not to say that some more complex exchange could not exist, such as A to B, B to C, and C to A. To understand it in its simplest form is to talk about two monopolists addressing each other. We are talking about the world of Robinson Crusoe and Friday where two entities either do or do not engage in exchange. In fact, as we noted in chapter 1, the "law of exchange" works only when we are discussing the world of Robinson Crusoe and Friday.

The study of an entity having a number of potential and undifferentiated exchange partners available is a logical extension of the study of the isolated dyad. From here we move to several individuals who have similar competing needs. We find parallel to this multiple players who have similar offerings but differing needs. At some point, we introduce the exchange medium as a topic of study. As we begin to add players, we add externalities and can begin to add varying institutional frameworks.

Exchange is micro in orientation, but it does not preclude a macro perspective. Cunningham (1988, 253) defines marketing as necessarily driving toward a relationship "stressing mutual benefit." We see no reason to impose such a constraint on what is defined as marketing. As we distinguished between marketing and well-managed marketing, we want also to recognize that some transactions build toward relationships and some transactions do not. Transactions can also undermine or end relationships. Exchanges which threaten relationships are examined more closely in chapter 5.

We do not use words like good and bad, and successful and unsuccessful, to distinguish between exchange and some other behavior. When trying to distinguish what constitutes exchange, these words do not help. When we try to look at the value of an exchange, we could discuss the contribution of a single transaction to an exchange relationship. Further, we might value an exchange that contributes toward the well-being of that relationship more than one that does not, but each is worthy of being called an "exchange."

MARKETING'S PRIMARY ORIENTATION: CONSUMER OR FIRM?

Cunningham (1988, 253) reads our (Houston and Gassenheimer 1987) discussion as referring to the consumer as the entity of interest. That is unfortunate and a failing on our part, because that is the farthest thing from our minds. What we see is an individual who has needs, who possesses potency or has the ability to acquire potency, and so forth. This entity is intended to be representative of any generalized entity, including a profit-oriented partnership or a corporation. What we have not done is to attempt to examine the workings of such entities. We do not look at a corporation's buying center and attempt to compare and contrast it with a family's buying "center." What we do want to do is to recognize the family as a production unit, just as we would a corporation. Our generalized entity is a "consumer" to the extent that it acquires value for consumption or transformation, whether the entity be an individual, a family, or a corporation.

Cunningham is concerned that there is too much emphasis on the consumer satisfying needs. What we want to have recognized is that, when we use the word need, we assume that the corporate entity has needs as well. One of the points stressed in chapter 3 is that it is not the customer's needs that drive the marketing process but the needs of the entity managing the marketing process. That entity can be the corporate entity as easily as it can be the "consumer." If marketing is being managed, it is for the purpose of taking care of the entity's own needs.

MARKETING CONTRASTED WITH ECONOMICS

In our attempt to develop a marketing view of exchange theory, we have looked to Alderson's law of exchange, to the works of social psychologists and anthropologists, and to the devices of economists. Our specification of the utility and production functions is drawn directly from microeconomics (Becker 1965; Be-
cker 1974) with little modification, and the use of such functional forms gives some marketers pause. For example, Ferrel and Perrachione (1980) are critical of Bagozzi’s leaning heavily on microeconomic underpinnings for his structure. Yet, economics and marketing share much common ground; in economics the focus is on resource allocation, and in marketing the emerging focus is on the potential exchange with exchange as the sole means of reallocation. It is not surprising that the tools and concepts that have proven useful to economists have value for marketers.

Differences do exist, however, between economics and marketing. Whereas the economist views factors (inputs to production) as some form of beginning point, the marketer’s attention on exchange results in little attention being directed to the production process.5

The activities and organizations, other than the original production of materials and their manufacture, by which all these things are assembled simultaneously for consumption are known collectively as marketing. (Vaile, Grether, and Cox 1952, 3)

For purposes of study we divide the economic (business) system into three parts—production, marketing, and consumption. (Converse, Huegy, and Mitchell 1958, 4)

The economist assumes that society has scarce resources and is studying the way in which they may be allocated. The marketer assumes there are needs, including those of the producer, and addresses how those needs are to be met. The economist believes that a good job has been done if efficiency and fairness characterize the allocation. The marketer believes that a good job has been done if he or she has adequately addressed his or her needs (or the needs of the entity who is the object of study).

This last point—that the focus of marketing is the taking care of one’s own needs—is likely to prove objectionable to some marketers. We have built a myth about how our purpose is to serve customers’ needs, and this myth seems to help some marketers feel more comfortable with their subject matter. As discussed above, marketing is the study of one means of need satisfaction, and the entity whose needs we are addressing is often labeled the marketer. In certain, well-defined settings, the marketing concept is the optimal strategy for satisfying those needs (Houston 1986).

Economists judge good and bad against pure competition; here, resources are allocated efficiently, and customers are getting their products at their least cost. The economist sees this as the ideal. In contrast, success to a marketer is escaping perfect competition. The whole of marketing management is the struggle to escape a purely competitive market situation. Success is the gaining of the differential advantage, becoming a monopolistic competitor or, with enough finesse or prowess, maybe even a monopolist. “Frank Knight has consistently stressed that, in perfect competition, there is no competition. He is, of course, correct” (Buchanan 1964, 218). It is the marketing discipline that puts the competition into perfect competition.

Whereas the economist typically assumes a ready market that establishes prices, the marketer does not make this assumption. Marketers define exchange as an area of study in terms of assortments for which there are not necessarily ready markets or established market prices. Above, we argued that one needs only the potential for those markets. Exchange as an area of study must be able to explain primitive market exchanges and schoolyard baseball card exchange behavior (cf. Radford 1945).

Economists often think in terms of instantaneous transactions and perfect knowledge. Marketers have chosen to look at the variation in information flows about products and markets as a way to explain the differences in one’s ability to maximize one’s own potency of assortment. While the economist recognizes that his or her theory rests on the entity’s desire to maximize his or her own potency of assortment, the individual entity is quickly lost in the aggregation that defines a market.6 The individual entity is a matter of attention only if he or she offers or wants something important
enough to warrant the label of a monopolist or monopsonist. In marketing, the unit of analysis is the exchange and not the aggregation of buyers or sellers.

This is not to say that we do not study aggregations of exchanges or people seeking exchanges. Instead, our disciplinary (theoretical) home has been and continues to be with the imperfections (as viewed by the economists) of the marketplace: the lack of instantaneous and perfect communication and distribution. Figure 6.2 captures much of what we, as marketers, have studied in the name of marketing in our discipline's history. To do this, we have quite literally taken a "closer" look by reducing our level of aggregation. As a disciplinary focus, we do not investigate markets; we study customers. Hence, marketing emphasizes customer behavior, leaning heavily on psychology for its insights.

Ferrell and Perrachione (1980) proclaim the "economic man" to be obsolete, but he or she cannot be. The all-rational, utility-maximizing entity is clearly alive and well if there is to be a theory of exchange. This idealized, assumption-laden creature of theory development is as necessary to developing marketing as the concept of a point is to geometry. While there is no substance to a point in space, it is from this that everything else is developed.

Cunningham takes exception to our need to believe in this economic man (Houston and Gassenheimer 1987). We suggest that this imaginary entity is simply the beginning of larger constructs. We are quite comfortable to go beyond economic man to build a decision-maker who is part of a larger society, who possesses values learned from parents, peers, and religious and educational instructors.

Our understanding of marketing draws heavily on marketing, economics, psychology, sociology, and, increasingly, anthropology. We like to think that we are studying marketing, and we draw on many disciplines to do that. Our study has at its heart exchange, and in its most simplistic form we find economic man. Reality is a many-layered thing and far afield from this economic man. Yet theory building must involve abstractions. We must do more than talk about marketing; we must build theory.
their use; as the various elements are accumulated, the entity has a stockpile of unrealized utility that we describe as potency.

Marketing is the study of potency variation resulting from exchange, and exchange is engaged in by an individual for the enhancement of the potency of that person's assortment. There are a number of ways other than exchange that can be used to enhance the potency of one's own assortment. These include, but are not limited to, self-production and certain forms of theft.

Following Alderson, we enhance the potency of assortment A by the substitution of element Y for element X. Likewise, the other half of that exchange consists of assortment B being enhanced as a result of the substitution of element X for element Y. The entity attempting to acquire element Y in exchange for element X will experience some gains and losses that do not accrue to his or her exchange partner. That is, there are transaction benefits and costs that are part of this exchange, and some of these will turn up as the residual "consequences" and "actions."

Alderson's "law of exchange" ignores these gains and losses and should be thought of as a "frictionless" concept. That is, it must be adjusted for the gains and losses in each exchange that are not reflected by an accompanying loss or gain for the exchange partner.

Valuation is "the act or process of assessing the value or price of something" (Morris 1976, 1414). An element's value comes not only from its ability to enhance an entity's potency but also from the value placed on it by the marketplace. Value potentially comes from the expectations about the offering itself, from the experiences accompanying the exchange, and from the residue of having engaged in the behaviors necessary to achieve the exchange; that is, value can reflect the worth of the element as well as the transaction. Utility can accrue from potency itself; hence, an element can have value not because it will be used but because it is possessed.

These elements are frequently termed products or offerings, especially when made available in the marketplace. These offerings take many forms, though the following descriptors are used to capture aspects of the different forms:

1. Good
2. Service
3. Idea
4. Personality
5. Organization
6. Medium of exchange
7. Place
8. Exchange experiences
9. Exchange consequences

There are a number of conditions necessary for an exchange to be possible. First we are dealing with entities who are thought to be goal-seeking, goal-ranking, capable of anticipating the consequences of their acts, capable of directing their acts toward specific consequences, and capable of creating innovative behaviors that suit their purposes. At least two of these entities are required for there to be an ultimate exchange, each having something valued by the other, each capable of communicating about the offering, and each capable of making the offering available. While these conditions are necessary for an exchange ultimately to take place, it is the addition of the "law of exchange" that gives us a sufficient set of conditions in noncompetitive situations. We do not yet have a set of sufficient conditions for a competitive exchange situation.

Yet Alderson's law of exchange is limited to understanding isolated exchange acts and does not anticipate the need to include exchange relationships in our understanding. An important indicator of the nature of an exchange relationship is social distance. Generalized reciprocity is the label used when social distance between those engaged in an exchange is small. At the very extreme, we can find the exchanges between a parent and an infant, where at a greater distance we see the behavior of neighbors or members of a small community (James and James 1985). At still a greater distance, we have balanced exchange, where we see the majority of economic exchange. With still greater social distance,
we begin to see what might be described as deviant exchange behavior. At this extreme, we have exchanges that could be called extortion, blackmail, and some forms of fraud and theft.

The study of marketing is the study of individual entities and the way in which the entity enhances his or her product assortment potency. It recognizes and incorporates an understanding of the way in which others enhance their potency (Houston 1986), but it does not involve the joint maximization of any exchange dyad’s utility function.

Marketing is not economics. Each discipline has a unique perspective and the result is that marketing and economics are complements. The theoretical underpinnings of marketing, like any other credible area of study subject to rigorous examination, are necessarily abstract. To reject this abstraction is to despair of any attempt at theory construction.

To reiterate the conclusion drawn by Sheth, Gardner, and Garrett (1988, 182) in their review of the various “schools of thought” found in marketing, “the social exchange school of marketing thought seems most promising in developing a general theory of marketing.” This general theory can draw the disparate marketing constructs that exist into one tapestry and serve as a common ground for the many perspectives marketers hold today.

NOTES

1. The republics that made up the Soviet Union are now attempting to overcome eighty years in which a person’s economic well-being was tied to a “who do you know” system and one’s political party affiliation. The transition is difficult because the institutions exist and individuals have developed skills and resources that worked within those institutions. Many are resisting the loss of their human capital. Now, new buying and selling skills are needed, some of which have been repressed by the previous legal system.
2. We introduce this definition in chapter 1. When we used it in Houston and Gassenheimer (1987), we included the word voluntary but should not have done so. The use of this word is inconsistent with a remark made elsewhere in that discussion (p. 12, fn. 17) and should be omitted from the definition.

4. The reader interested in different authors’ views in this general area might want to review Brown (1951), Dow (1954), and Koder (1980b, 29–30).
5. Traditionally, in our study of marketing, we (the discipline) chose not to involve ourselves with production issues. We saw clear demarcations between the marketing function and the production function, and we left the production to others to address. Had a marketer discussed appropriate fertilizers when discussing commodity marketing, or how to get the best work from assembly line workers when discussing auto marketing, our conceptualizers would have balked.

What we see today is internal marketing discussions (Kotler 1991, 459). This is the marketing one does to one’s own employees in an attempt to get them to perform their work better. Broadening marketing in this way breaks with the tradition of distinguishing among the various functions.

This broadened definition of marketing has evolved because service providers, unlike farmers and assembly line workers, for example, frequently come into contact with customers.

We do not disagree with the idea of drawing marketers into the production function, but we do have some concern over the destruction of what the term marketing means, as distinguished from production.

6. “The science of economics is concerned primarily with the social effects of choice rather than the effects on this or that individual. Nevertheless, economics utilizes individual economic decisions in order to say something significant about their combined social effects” (Brennan 1970, 7). See also Buchanan’s (1964, 215) discussion on the economist’s generally accepted level of analysis. Buchanan’s article is an argument for his conceptualization of what economics should be. His conceptualization of economics, as espoused in this early article, parallels what we would argue marketing theory qua exchange is today.

7. Rationality means behaving consistently with one’s own utility function. We specifically avoid judging how each element contributes to the overall potency of an assortment. What is included in an assortment is judged only to the extent that it contributes to the entity’s utility relative to alternative elements that might be chosen.
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