

APPROACHES FOR MARKETING SYSTEMS DEVELOPMENT

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A number of recent works in marketing literature have been concerned with marketing systems development. Each author has used his own approach and, consequently, no consistent approach or method of analysis has been offered. The purpose of this paper is to synthesise the different approaches into four major alternatives namely, historical, stage, institutional, and market structure approach.

Historical approach : The experience of the development of marketing systems in developed countries, especially of the United States, has been taken as an example for those who advocate the historical approach. The approach discusses the development of marketing within successive periods in the history of a country.

Stern mentioned that the study of marketing history may not only supply a rationale for current activities, but may be used in conjunction with other knowledge accumulated in a study of quantitative, economic, and behavioral information to aid in planning marketing action⁽¹⁾. In this interdisciplinary sense, Stern added that :

Although there are no laws in history — history may or may not repeat itself. I think that the tendencies of social and economic evolution as manifested in the past will in some like form prevail in the future. Study of the past may help the shape of things to come⁽²⁾.

(1) Louis Stern, «Pragmatism and Marketing History», American Marketing Association Proceedings (Fall, 1963), p. 326.

(2) Ibid., p. 329.

Williamson advocated the historical approach because it can provide students and teachers with a sense of time perspective. He also expressed concern about the lack of information on the evolution of marketing generally and in the U.S. particularly during the nineteenth century⁽³⁾.

Marketing literature is rich with examples concerning the historical approach. For the purpose of analysis the writings of Smalley, Coohsen, and Miller are examined.

Myers and Smalley, as participants, wrote a report on two conferences, one in Toronto and the other in Chicago, concerning the need for a history of marketing in the United States.

The aim of the conference in Toronto was toward the formulation of hypotheses concerning marketing in the United States which could be tested by a systematized program of analysis and research. Substantive investigations concerning the course of marketing evolution would then result⁽⁴⁾.

Among the issues raised in that convention was the following :

Can attention to the role of marketing assist us to understand more clearly and predict more accurately when a given society is ready for change, and what type of change — economic, political, and social — it is prepared to accept? Would such a history — a history of marketing in the U.S. — be useful in suggesting ways of bypassing certain stages in development and thus accelerate progress in underdeveloped areas⁽⁵⁾?

Dr. Bursleigh Gardner noted that attention should be given to different cultural patterns, and the stage of development in

(3) Harold F. Williamson, "Application of Historical Analysis to Marketing," *American Marketing Association Proceedings* (Fall 1963), p. 321.

(4) H. Myers, Jr., and Orange A. Smalley, "Marketing History and Economic Development," *Business History Review*, Vol. XXVIII, No. 3 (August, 1960), p. 352.

(5) *Ibid.*, p. 354.

other areas⁽⁶⁾ while Westfall suggested improving transportation and communication as basic prerequisites for marketing development⁽⁷⁾. Dr. Kenneth Myers added that any society is prepared for some improvement in marketing attitudes and techniques at any point of time. The question is concerned with which improvement⁽⁸⁾.

The conclusion rested on the establishment of a centre for marketing interdisciplinary lines. The purpose of the centre would be to facilitate and focus the research efforts of scholars interested in furthering the understanding of the role of marketing in the United States and its social, political and economic implications both at home and abroad⁽⁹⁾.

Coolsen attempted to throw some light on the history of marketing development in the United States in the late nineteenth century in a way to show how such analysis could help the developing countries now.

Export in the United States in the nineteenth century provided means of importing higher standards, while the industrial production in 1870 created a domestic market which was a major factor for economic development.

Coolsen also illustrated that the problems of marketing were first concerned with agriculture, and then with manufactured goods⁽¹⁰⁾.

Coolsen showed the interrelationship between the changes in social economic conditions and marketing development. He emphasised the importance of transportation and communication systems on agriculture marketing. He also explained the type of wholesalers and retailers existing in that period. He showed that changing in marketing had contributed to the expansion of

(6) *Ibid.*, p. 292.

(7) *Ibid.*, p. 291.

(8) *Ibid.*, p. 294.

(9) *Ibid.*, p. 293.

(10) Frank Coolsen, «Marketing and Economic Developments», American Marketing Association Proceedings (Fall, 1962).

demand and the development of productive entrepreneurial leadership⁽¹¹⁾. He concluded that :

The task is to develop a body of hypotheses through historical and comparative analysis that will lead to useful theories or ideas concerning what to expect and what to do at various stages of market and marketing development⁽¹²⁾.

Miller's approach classified marketing development into four ecological eras. The location of different eras is a key concept in his classification. These areas are the local production era, the regional wholesaling era, the central city retailing era, and the suburban retailing era. His ecological eras were selected in accordance with the aspects of concentrations of marketing, demographic, physiographic, and distributional characteristics⁽¹³⁾. For each era there is a technological stimuli and a primary marketing challenge.

(a) The local production era, 1810 to 1880. This period was an evolutionary rather than revolutionary technological change. In this era industry lagged behind agriculture and the distribution of farm and mill products was the primary challenge to marketing.

As consumers were increasing in number, mobility, and concentration, increasing buying power led to the emergence of wholesaling and retailing as a separate genera; retailing took the shape of saloons, dry goods stores, hardware, and furniture stores, while wholesaling was of the commission merchant type⁽¹⁴⁾.

(b) The regional wholesaling era, 1880 to 1910. The technological stimuli of that period were the steam locomotive, the telegraph, the postal service, the corporate form of business, commercial banking. Such factors caused revolutionary changes in transportation, storage, and communication⁽¹⁵⁾.

The marketing challenge during that era was the distribution of the increasing output of goods. In this era there was a con-

(11) *Ibid.*, p. 84.

(12) *Ibid.*, p. 87.

(13) Miller, *op. cit.*

(14) *Ibid.*, p. 209.

(15) *Ibid.*

centration of consumers, and specialization in retailing and wholesaling. In wholesaling, the service wholesaler and specialized commodity exchange were established. Department stores, mailorder houses, and variety stores emerged during this era.

(c) The central city retailing era, 1910 to 1940. Electricity, the auto industry, the radio, credit services, and central banking were the technological factors that influenced marketing development in this era. This era is characterized by concentration in metropolitan areas, and of intense demographic and physiographic mobility. The challenge to marketing was one of specialization in accordance with demographic characteristics rather than physiographic factors⁽¹⁶⁾.

Large scale consumer-oriented markets characterized retailing and the rise of vertically integrated distributional channels⁽¹⁷⁾.

(d) The suburban retailing era, 1940 to 1960. Miller characterized this era as being of rapid technological change in the marketing movement media, and high turnover rates within demographic, physiographic and distributional mobility. Consumers moved to suburbs, new products came to market. New distributional firms were the major characteristics of this period⁽¹⁸⁾. There was vertical as well as horizontal interaction among distribution channels, which, as he mentioned, led to the emergence of the discount store.

Stage approach: The stage approach for marketing development recently has attracted the attention of marketing writers. Historical economic stages of development, or new stage for marketing are the sources of this approach.

The German historical school of thought was responsible for giving increased attention to historical stages. Friedrich List classified economic development into five stages: Savage, Pastoral, Agricultural, Manufacturing and Agricultural, Manufacturing and Commercial⁽¹⁹⁾.

(16) *Ibid.*, p. 210.

(17) *Ibid.*

(18) *Ibid.*

(19) Friedrich List, *The National System of Political Economy* (London, New York; Longmans, Green, and Co., 1904).

Zari Bucher had a three-stage approach. The first, the household produce for his own. The second activity, concentrate in independent market towns, and in the third stage, the middle-men dominate⁽²⁰⁾. Now there is Rostow's approach of stages⁽²¹⁾.

Among the scholars in marketing who wrote on the development of marketing to the stage approach are Dichter, Solomon, Goldman and Capulsky.

The key to Dichter's classification is the world customer. He related consumer revolutions to the revolution of the middle class, and concentrated on society's attitude toward car ownership. His classification includes six groups of consumers⁽²²⁾.

(a) The almost classless society. In this group we would include the Scandinavian countries. The middle class takes up all of the scale with few groups being really poor or rich.

(b) The affluent countries. In this group few people starve and still there is room at the top. This is like the U.S.A., Western Germany, Holland, and Canada⁽²³⁾.

(c) Countries in transition. These countries have a working class similar to that of the nineteenth century. But this working class is trying to become middle class. A social revolution has not yet come to these countries and an upper class enjoys many privileges. England, France, Australia, South Africa, and Japan are included in this stage⁽²⁴⁾.

(d) Revolutionary countries. These countries include a large number of people just emerging from near starvation. The

(20) Karl Bucher, *Industrial Evolution* (New York: N. Holt and Co., 1901), p. 89.

(21) For more on the stage approach see: C.R. Fay, *Stages in Economic History in English*, Cambridge, 1940; M.S.R. Gray, *Stages in Economic History*, *Journal of Economics and Business History* (November, 1930); F.L. Nussbaum, *A History of Economic Institutions of Modern Europe: An Introduction to the Modern Capitalism of Werner Sombart* (New York: F.A. Crofts and Co., 1933).

(22) Ernest Dichter, "The World Consumer", *Harvard Business Review*, Vol. XXXX (July-August, 1952), pp. 113-121.

(23) *Ibid.*, p. 119.

(24) *Ibid.*

(25) *Ibid.*

middle class is small and there are outstandingly wealthy people. There are a number of poor people who will have a higher standard of living with the development of industrialization. An illustration of this group of countries is Venezuela, Mexico, Brazil, Spain, India, and China⁽²⁶⁾.

(e) Primitive countries. This group has a small number of wealthy people, and foreign businessmen, new political leaders, and foreign administrators. The remainder of the population is poor, illiterate, living in a free consumer stage by barter and self-sufficiency. This includes the new independent countries of Africa and the remaining colonies⁽²⁷⁾.

(f) The new class society. The Soviet Union and Socialist countries represent this new class society through the existence of a class of bureaucrats. The rest of the society are low middle class people. There is no extremely low middle class in these countries, according to Dichter.

Based on the development of marketing in the Soviet Union, Goldman classified marketing development into two stages⁽²⁸⁾. In the first stage, when agriculture is the dominant economic activity and the standard of living is quite low, retailing and wholesaling are the characteristic marketing agencies. In this first stage efforts are made for achieving efficiency and reducing cost within the distribution sector of the economy.

The second stage of marketing development emerges with changes in supply and demand of the economy. On the supply side, industrialization takes an important role in the economy, and on the demand side consumers begin to have surplus income⁽²⁹⁾. This stage is characterized by the development of a buyer's market which replaces the seller's market in the first stage. Marketing practices and techniques in the second stage adapt themselves to capitalistic marketing techniques in relation to promotional activities and product differentiation⁽³⁰⁾.

(26) *Ibid.*, p. 121.

(27) *Ibid.*

(28) Marshall J. Goldman, *Soviet Marketing : Distribution in a Centralized Economy* (New York : The Free Press of Glencoe, 1962).

(29) *Ibid.*, p. 191.

(30) *Ibid.*, pp. 191 - 193.

Goldman's analysis shows that social and economic changes in supply and demand are reflected by industrialization on the one hand and quantity purchasing power on the other hand and are basic to the development of marketing.

Solomon's approach is based on similarities in marketing within a number of densely populated underdeveloped economies in the area of the Middle East, Southeastern Europe, India, and China. The approach is a comparative approach concerning underdeveloped countries. Among the purposes of the study he stated : «The extent to which the existing market structure is the inevitable product of a certain stage of economic development»⁽³¹⁾.

Solomon classified his analysis into personal services, perishable produce, agricultural staples, manufactured consumer's goods, and capital goods. He stated that there is a similarity existing among these areas regarding the practices and the structure of marketing.

His approach essentially is based on one stage of development as a method of finding similarities among countries within a certain stage of economic development.

Capulaky stated :

Among nations there are different stages of commercial development. Within any nation, there are similar differences among economic sectors. There are many alternative classifications of stages of marketing development⁽³²⁾.

Capulaky classified marketing development into six stages : preindustrial, primary manufacturing and exports, non-durable consumer finished goods, capital goods, consumer-durable and related intermediate products, and export of manufactured goods. His classification takes the type of products as the «basic factor in each stage of marketing development».

(31) Morton R. Solomon, «The Structure of the Market in Underdeveloped Economies», *Quarterly Journal of Economics*, Vol. LXII (August, 1948), pp. 519 - 537.

(32) William Capulaky, «Forecasting Sales in Underdeveloped Countries», *Journal of Marketing* (July, 1959), pp. 36 - 40.

Institutional approach : The third approach for marketing development is the institutional approach. Marketing institutions are the focus for the change and development. In this section the writings of McCarthy and Morgan are used as representatives of this approach.

Effective marketing institutions for H.J. McCarthy are the major aspect that enables the producers and the economy as a whole to evolve to a higher stage of development⁽³³⁾.

McCarthy criticized the production-oriented approach as follows : «Marketing is treated only as an aspect of production process, when it may be more correct to think of production as only an aspect of the marketing process»⁽³⁴⁾.

He explained that the reason why marketing institutions are misunderstood is because they are lumped together as middle-men⁽³⁵⁾.

His approach is based on classifying the producer stages of economic evolution and then prescribing the suitable type of marketing institutions needed for every stage as follows :

(a) **Self-sufficient firms.** These are family type with no surplus to be marketed. They have no interest in trading with others. No marketing institutions exist in this stage⁽³⁶⁾.

(b) **Self-sufficient with occasional surplus.** These family type firms sometimes have a surplus. The critical function for them is buying and selling. The suitable institution is either local markets or fairs to help farmers make the exchange. The institution is helpful, not vital⁽³⁷⁾.

(c) **Production-oriented firms.** The family-owned firms have tended to specialize in one crop. Here handicraft and cottage industries exist. In some countries there is noticeable specialization in food production and the textile industry.

(33) Jerome McCarthy, «Effective Marketing Institutions for Economic Development», *American Marketing Association Proceedings* (Fall, 1963), p. 393.

(34) *Ibid.*, p. 395.

(35) *Ibid.*

(36) *Ibid.*, p. 396.

(37) *Ibid.*, p. 397.

The producers depend largely on others to market their products. As to marketing suitable institutions, they can be described as traders and merchant types. Such middlemen are vital to the development of production-oriented firms, especially those producing homogeneous products⁽³⁸⁾.

(d) Market-oriented independent firms. In this stage producers try to develop a marketing mix to satisfy a specific market. The use of marketing research is essential to satisfy consumers better. The type of institutions needed in this stage is similar to that existing in the preceding stage. Moreover, consumer services and problem solving are expected to be provided by marketing institutions⁽³⁹⁾.

(e) Market-oriented integrated firms. The difference between this stage and the previous one is that marketing functions provided by independent middlemen are taken over by the producer. The marketing institution is the firm itself. This stage depends on marketing research, product and market planning, sales analysis in order to satisfy certain types of customers⁽⁴⁰⁾.

Morgan stated that the retail market structure is a function of the level of economic development. Among his findings he stated that :

Social-economic aspects of population which vary systematically with economic growth are shown to be prime determinants of the number of retail stores in retail products markets⁽⁴¹⁾.

Morgan used an index showing concentration of retail stores which suggested the following :

- a) High income regions have a higher level of retail industry concentration than do low income regions.
- b) As the economy within a region grows, concentration of total retail trade increases, but concentration increases faster for food.

(38) *Ibid.*, p. 391.

(39) *Ibid.*, p. 402.

(40) *Ibid.*, p. 401.

(41) Howard E. Morgan, «Retail Market Structure and Economic Growth» (unpublished Ph. D. dissertation, University of California, Berkeley, 1963).

c) Pressure of small retailers may limit concentration⁽⁴²⁾.

On the consumer side, Morgan said that with economic development which is associated with growth in the size and density of population, urbanization, and social homogeneity, it is probable that these factors tend to lower the ratio between store to population in respect to food and necessity stores and increase the ratio for services and luxury commodities. He added that such changes create favorable conditions for the development of large retailing.⁽⁴³⁾

Hess and Cateora stress the evolutionary nature of the marketing institution as the economy develops. Evolution necessarily results from the new level of development, which is created⁽⁴⁴⁾.

They classified economic development into three stages, agricultural and raw material, manufacturing, and marketing and divided every stage into two substages. Their approach indicated the type of industry, marketing functions, marketing institution, channels central primary orientation, and resources employed for each of the six substages. Table 2-1 shows their approach. This approach combines between economic stages and marketing institution and functions matching them.

Market structure approach. Market structure analysis and economic development have long been a topic research and investigation among agricultural economists. It took the meaning of marketing channels and facilities, geographic and temporal price relationships, and values of the elasticity coefficients in agricultural markets⁽⁴⁵⁾. Fols said :

Structural research involves more and more understanding and treatment of the market as a whole. Analysis of market struc-

(42) *Ibid.*, p. 353.

(43) *Ibid.*, p. 243.

(44) Hess and Cateora, *op. cit.* p. 171.

(45) Robert L. Clodius and Willard Mueller, "Market Structure as an Orientation for Research in Agricultural Economics," *Journal of Farm Economics*, Vol. XLII (August, 1961), p. 515. (A comprehensive article about the subject and includes an annotated bibliography).

TABLE 2-1
Evolution of the Marketing Process

Stage	Sub-Stage	Examples	Marketing Functions	Marketing Institutions
Agricultural and raw materials (MK (t) Prod). 1	Self-sufficient	Nomad's or hunting tribes	None	None
	Barter commodity producer	Agricultural economy - i.e. coffee, bananas	Exchange	Small-scale merchants, traders, fairs
Manufacturing (MK (t) Prod)	Small-scale	Cottage industry	Exchange Physical distribution	Merchants, wholesalers, export-import
	Mass production	19th century from 1885-1914	Demand creation Physical distribution	Merchants, wholesalers, traders and specialized institutions

TABLE 2 - 1 (continued)

Stage	Sub-stage	Examples	Marketing Functions	Marketing Institutions
Marketing (Prod. (C) & M.E.)	Commercial-transition	US economy from 1915 - 1929	Demand creation Physical distribution Market Information	Large-scale and chain retailers increase in specialized middlemen
	Mass distribution	US economy from 1960 to present	Demand creation Physical distribution Market information Market and product planning, development	Integrated chains of distribution. Increase in specialized middlemen

Source: John M. Hess and Phillip R. Cutera, *International Marketing* (Homewood, Illinois: Richard D. Irwin, Inc., 1966), p. 173.

TABLE 3-1 (continued)

	Primary Orientation	Resources Employed	Comments
Finance	Control	Labor	Labor intensive
	Traditional authority	Land	No organized markets
Traditional authority	Entrepreneurial	Labor	Labor and Land intensive
	Commercial	Land	Product specialization Local Markets
Middlemen	Entrepreneurial	Labor	Labor intensive
	Commercial	Land	Product standardization and grading
	Entrepreneurial	Technology	Regional and export markets
	Financial	Transportation	Capital intensive
Producer	Production and finance	Labor	Product differentiation
		Land	National, regional and export markets
		Technology	
		Transportation	
Producer	Entrepreneurial	Labor	Capital intensive
	Commercial	Land	Changes in structure of distribution
		Technology	National, regional, and export markets
		Transportation	
Producer/Retailer	Marketing	Labor	Capital and land intensive
		Land	Rapid product innovation
		Technology	National, regional, and export markets
		Transportation	

tures will not have theoretical and statistical tools readily at hand. Greater dependence will be upon the researcher's ingenuity and adaptability in applying at the time such studies are made. Good market researchers will have to know more about market agents and the market researcher will not be adequately trained if all he has by way of preparation is a knowledge of economic theory and a few sophisticated econometric models to apply. He must also have a broad knowledge and experience in all aspects of marketing.⁽⁴⁵⁾

Writers on market structure. Clodius and Mueller differentiated among market structure, market conduct, and marketing performance. Market structure consists of the organizational characteristics which determine the relations of sellers in the market to each other, of buyers in the market to each other, and of sellers established in the market to other actual or potential supplies of goods.⁽⁴⁷⁾ Market conduct was defined as the pattern of behavior which enterprises follow in adapting or adjusting to the markets. Market performance referred to the economic results that follow from the industry as an aggregate of firms.⁽⁴⁸⁾ The writers explored the different aspects for research concerning market structure, and its relation to changes in technological, economic factors, barriers to enter, integration, merger, legal features and others.

Relating market structure to economic development in underdeveloped countries, Mueller stressed that market structure analysis is an underdeveloped tool of economic growth theory. He classified his analyses into (1) wholesale and retail markets for food, (2) manufactured goods markets, (3) export and import

(45) William E. Fols, "Some Factors Inducing Changes in Marketing Cost, Structure, and Practices," *Agricultural Marketing Research in the West*, Report No. 1. Western Agricultural Research Council, Committee on Agricultural Marketing Research (December, 1957), p. 540.

(47) Clodius and Mueller, *Op. Cit.*, p. 510.

(48) *Ibid.*, p. 517.

markets, and (4) the money market.⁽⁴⁹⁾ He added that anyone who believes that there is a relationship between market structure and economic performance, progress, and development will be particularly interested in the implications of these structures.⁽⁵⁰⁾ He concluded that because of the small amount of empirical work on the market structure of underdeveloped countries that had been done, he would heartily commend this area to marketing economists.⁽⁵¹⁾

Evaluation. The approaches discussed in this section attempt to relate the development of a whole country to the development of markets and marketing. The historical approach seems to be promising if a comparative study takes place and some generalization can be made in the evaluation of market and marketing system can be developed among different countries or regions. Such was the aim of Myers, Smalley, and the suggestion of Colesen. Miller's study is significant because it relates the development of marketing in its successive historical eras to a sound theoretical basis for marketing development, the ecological adaptation of marketing.

As for the stage approach, either taking economic stages or building marketing stages of development, it has the advantages of being a device to compress description of economic changes into a few, neat compartments.

Dichter uses his concept of social classes as a basis for different stages of development. Goldman has two stages, within one country, the Soviet Union. Solomon has one stage which is that of underdeveloped countries. Capulaky's approach included six stages based on type of production. These divisions call for a systematization which is needed in the field to have a clear-cut, logical, and applicable classification that is necessary for understanding the development of marketing. It is suggested that if Solomon's approach is used as a basis to compare developed, semi-developed and underdeveloped countries in re-

(49) Willard F. Mueller, "Some Market Structure Considerations in Economic Development," *Journal of Farm Economics* (May, 1959), p. 414.

(50) *Ibid.*, p. 423.

(51) *Ibid.*, p. 423.

gard to marketing development, it would be a step toward a better stage approach. In addition, this approach tends to be descriptive and not analytical since it does not show the mechanism of moving from one stage to another⁽⁵²⁾. Also, little is done to show the forces which create the change from one stage to another. This approach is promising, but is in need of further research.

As for the institutional approach, McCarthy's attempt to match the stage of producers development with the suitable institution's is a valuable attempt and a practical way to show the contribution as well as the development of marketing from the point of view of institution structure. More concrete was the study of Morgan which selected retailing and related it to economic development. The variable selected and his analysis is a worthy attempt at explaining the development of marketing. Hess and Cateoria's approach combined external environment with institutional development. All writers used the economic-social environment as basic criteria for their analysis of the development of marketing institutions. However, the approach from the side of the institutions needed requires research on both the functions and structure of institutions. It needs also to focus on the size, type, and number of institutions and their relation to development.

As for the market structure approach, it is characterized by its similarity to the institutional approach once market structure is taken to mean channels of distribution. The need to define the market as being the consumer's requires that the market structure approach look for the demographic point of the market, the consumer, since he is the focus of all marketing activities.

(52) *Ibid.* p. 58.