SOME PROBLEMS IN MARKET DISTRIBUTION: REVISITED

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ABSTRACT

Arch W. Shaw was one of the earliest and most influential contributors to the development of marketing practice and thought. His seminal 1912 article deserves to be revisited because of the breadth and depth of marketing thought found there. We demonstrate the scope of Shaw's contributions with quotes from his article.

"Anyone who gets a new idea bearing on business philosophy and who then takes the trouble to scan corresponding utterances of preceding generations will return to this thought with increased awareness of its apparent lack of originality" (McKitterick 1957, p.71). With this in mind, it is not our intention to give undue credit to Shaw for discovering marketing concepts or principles. However, it is our thesis that Shaw (1912) is a most remarkable journal article and deserves to be revisited for the breadth and depth of marketing thought that can be found there.

Shaw has been credited with writing the first scholarly article on marketing and as being the "father" of the functional school of marketing thought (see Hunt and Goolsby 1988; Sheth, Gardner and Garrett 1988). Within a decade after he developed his "functions of the middlemen," many authors proposed their own lists of middlemen and marketing functions (see Cherington 1921; Clark 1922; Converse 1921; Duncan 1921; Weld 1916, 1917). The functional approach became so popular, it dominated marketing thought for five decades. With McCarthy (1960), the managerial school of thought began to develop and, after a decade of co-existence, replaced the functional school of thought as the preferred approach.

We hope to demonstrate, in Shaw's own words, why his writing deserves to be examined more closely. In our revisit, we link Shaw to Marketing Functions, but we more specifically attempt to link him to general Marketing Management, and many of the concepts and ideas developed long after his writing.

On the Importance of Marketing

Shaw did not use the term marketing, but rather "market distribution." The terms "distribution," "commerce," and "trade" were all popular at that time, but Shaw clearly meant marketing when he referred to market distribution. The term marketing did not appear in a course title at Harvard until about two years after Shaw's article was published, although it was used infrequently at other institutions before 1912 (see Bartels 1976).

Shaw recognized the importance of marketing; he recognized that marketing played a significant role in the Industrial Revolution. "It was a rapidly increasing pressure on the producer for greater quantities of staple articles for mass consumption that gave incentive to the revolution in the method of production" (p.704). This idea was later extended by Gilboy (1932), and was then further expanded in a book by McKendrick, Brewer and Plumb (1982). These latter authors described the birth and development of a new consumer society where early entrepreneurs focused as much on demand creation as on production. They practiced market research and segmentation, product differentiation, and experimented with a variety of pricing and promotion schemes.

It is therefore evident that many of the concepts of marketing were known and used well before 1912, even if their more modern names were not. However, the practice of marketing was dependent on the experiences and actions of individual businessmen. Sounding much like Levitt (1969), Shaw observed:

> The ordinary business man today markets his product by rule of thumb. He gambles on his business instinct (p.748).

Shaw was aware that marketing knowledge must become systematized. He was aware of the need to be concerned with market considerations; he was aware of a need for increased knowledge of marketing principles, and improved marketing management. He argued, "If our producing possibilities are to be fully utilized, the problems of distribution must be solved" (p.705). Shaw believed these problems deserved systematic study, and what followed in his article demonstrated a breadth of thought worthy of many good managerially-focused introductory marketing texts which would begin to appear about a half-century later.

Bartels (1976) argued that writing on marketing management proliferated from the mid-1950s, and the "marketing concept" was incorporated into marketing thought about that time. Firms adopting the marketing concept would make their marketing decisions with a view towards customer considerations and, according to Bartels, the first authors to explore marketing management from this perspective included Alderson, Howard, Kelley, Lazer, and McCarthy.

However, the marketing concept was operational as early as the eighteenth century in the marketing practices of Josiah Wedgwood and Thomas Bentley (see McKendrick, Brewer and Plumb 1982). Shaw, in several places in his article, indicated that marketing decisions would be better made with appropriate consideration of customer needs and wants. Consider:

> The business man finds his practical task in searching out human wants and providing the means of gratification (p.706).
>
> The producer is forced to study the consumer's wants and to adjust his product to them (p.735).
>
> Attempting to sell a thing that nobody needs is wasted effort (p.756).

On Consumer Behavior and Research

On the subject of consumer behavior, we find some concepts and ideas in Shaw's work that were later echoed in many consumer behavior texts, by authors such as Engel, Kollat and Blackwell (1968), or Robertson (1970), or Assael (1981). Shaw recognized that there were "...three general classes of demand: (1) expressed conscious demand, (2) unexpressed conscious demand, and (3) subconscious demand" (p.746). These different classes of demand arose because there were different classes of needs. According to Shaw, "In each individual there are certain conscious needs being constantly gratified... conscious needs which go ungratified... unformulated, subconscious needs which fail of expression" (p.707).

Kotler and Turner (1995) included needs, wants, and demands among the core concepts of marketing. Shaw saw human wants "....are as varied as their purchasing power" (p.707), and realized that people would have different criteria when evaluating market offerings. For this reason, businessmen must study their customers to determine the unique motives that drive individual behavior:

> To succeed he must have an unusual equipment, including knowledge of human nature, of the psychological organization of the individual consumer, and must be able to give proper weight to such motives as social emulation and all the varied factors that enter into the subjective ratio of exchange of the consumer (p.717).

While Shaw recognized the importance of knowing the customer, he also recognized that experimental studies could be applied as a research methodology to help determine which criteria were more important, and which should affect market offerings:

> ...the laboratory method here suggested lends itself to a determination of what elements of quality and service in a given product are deemed most essential by the consumer... The producer can sound the consumer and can better adapt his product to the consumer's felt needs (p.762).

This was, perhaps, one of Shaw's greatest contributions, his belief that "problems in market distribution" could be solved through a more scientific analysis. Throughout his article, he continually argued for a more scientific approach to marketing, and he provided several examples of how and where research could be applied. Previously, marketing knowledge was gained through trial and error, largely by individuals concerned with particular problems in specific industries. Shaw saw the possibility of reducing uncertainty through discovering generalities or principles by the application of scientific management.

On the Strategy of Product Differentiation

With a strategy of product differentiation, marketers recognize heterogeneity of consumer demand, but prefer to standardize their product offering and differentiate it from competitor offerings through promotional efforts. It is apparent from the discussion by Chamberlin (1933) that the strategy was common in marketing practice prior to his "theory of monopolistic competition." Shaw, in his article, was also aware of this strategy as exemplified by the following statement:

> The whole basis of the policy is the differentiation of a product from other goods of substantially like nature by improvements, minor or substantial, and the identification of the product by trade marks, brands, and trade names (p.717).

Levitt (1969) argued that firms must get away from viewing their offerings as simply generic, physical products, and must consider the "whole cluster of value satisfactions," that is, the augmented products that surround the core products. These augmented products could provide numerous bases upon which to achieve competitive superiority, and Levitt (1980) argued that firms could achieve success through differentiation "of anything," and he provided numerous examples.

Shaw was aware of numerous bases to differentiate products:

> The means used for differentiation are numerous. Sometimes slight modifications.... Sometimes niceties of trimming and equipment.... Sometimes a new and more convenient style of package.... Sometimes the distributor builds up an atmosphere of good taste.... or a reputation.... Sometimes the distributor depends upon "service" or special conveniences.... (p.710).

Shaw was aware of the competitive advantage to businessmen who learned how to properly differentiate their offerings. He argued that through product augmentation, firms could increase sales while selling at competitive market prices:

> Trade marks, brands and trade names, coupled with niceties of finish, evenness in quality or more convenient packages, serve as the basis for an increased demand for the commodity upon the same price level as substantially identical products. When selling at the market, superior promptness in delivery may become a factor of great importance in increasing sales (p.715).

Alternatively, some businessmen might recognize that creating a differentiated offering increases the "consumer's surplus," and they might attempt a strategy of extracting that surplus by raising their price. "The differentiated commodity is established on a new and higher price level, and is to all intents and purposes a new commodity" (p.717).

On Segmentation

The importance and implication of successfully segmenting the marketplace is that market offerings can then be differentiated to appeal to the unique needs of each market segment. Wendell Smith's (1956) seminal article described market segmentation as an alternative strategy to product differentiation and argued that there were instances where it was wise to adjust product offerings to meet heterogeneous demand. McKendrick, Brewer and Plumb (1982) described how the strategy of market segmentation was practiced in eighteenth century England. Shaw, too, recognized the value and difficulty of segmenting the market, and several bases for segmentation:

> The business man must first realize the intricacy of the problems he has to solve. He must analyze his market... The business man faces a body of possible purchasers, widely distributed geographically, and showing wide extremes of purchasing power and felt needs... The market, therefore, splits up into economic and social strata, as well as geographic sections (p.749).

While Smith (1956) may have been the first to clearly articulate the advantages of market segmentation, and while it may have been rooted in the economic theory of Chamberlin (1933), it is argued that the strategy existed much earlier in marketing practice. Shaw's recognition of market segments and a need for market segmentation had little impact, possibly because of growing interest and experimentation with product differentiation as the economic climate forced manufacturers to focus on limited existing demand.

On Pricing

Shaw utilized existing micro-economic terms and tools (such as supply-demand curves for elasticity illustrations and "consumer surplus" for perceived value purposes) in his discussion of pricing policies. While Kotler and Turner (1995) noted an increasing popularity of perceived pricing, Shaw was certainly aware of the potential to use such a strategy as he noted that the perception of value differed across different segments:

> ...varying subjective valuations placed upon such a commodity by consumers of differing purchasing power and of differing social position and individual habits (p.708).

Two pricing strategies, particularly appropriate when introducing new products, include either penetration pricing (entering the market with initial low prices) or price skimming (a reverse strategy using initial high prices) (Dean 1950). A compromise strategy, often used when competitive products exist in the market, involves setting the price with reference to competition, rather than either cost or demand. Such a strategy was referred to as "going-rate pricing" by Kotler and Turner (1995). The names we use to articulate these pricing strategies may not have been used by Shaw, but he was aware that there were three general possibilities when setting price:

> ...three [general price] policies may be termed, (1) Selling at the market minus, (2) Selling at the market, and (3) Selling at the market plus (p.712).

Among shorter-term promotional pricing tactics, the use of a loss-leader pricing strategy has apparently been around for a long time:

> ...the further element enters that consumers attracted to purchase a staple commodity at less than the prevailing price will also purchase other commodities yielding a wider margin of profit (p.713).

We have already demonstrated that Shaw was aware of the importance of differentiation, and he knew the effect it might have on pricing strategy. While he recognized the possible competitive advantage, he also recognized that it would not necessarily be long-lived. He was very much aware that there were competitive pricing cycles:

> The distributor who is successful in establishing a differentiated product as a distinct commodity on a new price level is, for a time, in the position of having a monopoly as to the differentiated commodity... His monopolistic position often enables him to obtain temporarily a margin of profit disproportionate to the actual improvements in the differentiated product as compared with the staple commodity of similar nature. This, again, may be justified as a reward for enterprise in making possible a more exact adjustment of goods to the wants of the consumer. And in the long run, the large percentage of profit will decrease as other producers follow his example and differentiate their products from the staple. The rise of competition at the new price level will ultimately force in the competing differentiated commodities the substantial improvements warranted by the higher price (p.720).

Finally, Shaw advocated the use of price testing in establishing product prices. Following his general philosophy, he proposed a greater role for research to improve pricing strategy:

> In such a case the business man seeks to determine which price will give him the best net return, all things considered. Now the method of study developed above [testing in statistically significant sized groups] will permit the business man to determine by actual test the effective demand that can be built up at different price levels in different economic and social strata. Hence he can fix the price on the basis of relatively exact data, rather than on a mere guess (p.762).

On Channels of Distribution

Even though Shaw, like several other early writers in marketing, used the term "distribution" for those activities we more commonly now label "marketing," he had much to say (and contribute) on the more specific topic of channels of distribution. In fact, prior to the "wheel of retailing," he identified and attempted to explain the cyclical changes in the structure of retailing middlemen. Further, he analyzed the changing roles of middlemen and pointed out the need for selecting a system of distribution that could best provide the appropriate services to any chosen market segment. The following quotations illustrate:

> Hence the ideas to be conveyed to the prospective purchaser to create in him a demand for the goods vary at different steps in the complicated process of distribution, because of the different points of view of those who buy for re-sale and those who buy for consumption (p.734).

> It must be convenient for them [consumers] to obtain the goods. In many cases, certain collateral services such as instruction, demonstration and repairs must be given (p.737).

> And so a system of distribution which has proved very effective in reaching one economic stratum may be relatively inefficient when employed to reach a different economic stratum in society.

> The problem, then, of working out the most effective combination of agencies is a most complicated one (p.751).

Shaw also recognized the many functions that middlemen performed: sharing risk, transporting goods, financing operations, selling and promoting goods, assembling, assorting, and re-shipping. He recognized that middlemen were paid to perform these various functions and argued that efficiency within the distribution channel could only be maintained by reducing margins to middlemen that failed to or were not required to perform specific functions:

> On strict economic grounds the margin of profit of the middleman should be reduced in proportion to the reduction of his functions....
>
> Now if the producer takes over the selling function and does not reduce the discounts allowed the middleman, the middleman is being paid for a function he no longer exercises. And ultimately this must come out of the pockets of the consumer (p.738).

The idea that the producer could take over the selling function was not new, but Shaw noted that it was becoming increasingly important, particularly in the previous decade (p.736). Direct communication with the final customer allowed a producer to "escape pressure exerted by the middleman" (p.736) and create demand that would not exist if the producer relied exclusively on other channel members to promote his product:

> Hence a producer who has added to his goods special advantages in quality or service finds it difficult to convey to the consumer through a chain of middlemen the precise ideas about those advantages that will lead the consumer to demand his goods in preference to those of another (p.735).

This "pull strategy," as we now call it, was a matter of "great social significance in our scheme of distribution" (p.735). It forced the producer to study the consumer's wants and, where appropriate, adjust the quality and service levels to meet those wants:

> He [the producer] can no longer devote his attention exclusively to cost. He realizes that the consumer's satisfaction depends on the quality of the goods and the service that they render (p.735).

The improved product offering, and the increased promotional effort could, however, benefit the distributor even when margins were reduced:

> As compensation for this reduced margin of profit on each sale, the middleman obtains rapidity of turnover due to the selling efforts of the merchant-producer (p.738).

<u>On Marketing Communications</u>

Shaw, as well as other early writers, discussed marketing communications in terms of "selling," and the distinction between marketing and selling was not made until much later. Shaw's conception of the promotional mix consisted of three methods or agencies for selling:

> There are three general agencies [for promotion] to be considered: (1) middlemen, (2) the producer's own salesman, and (3) advertising, direct [direct mail and sales promotion] and general [media advertising]. The business man faces the problem of what agency or what combination of agencies is the most efficient machinery for the distribution of his particular commodity (p.724).

In 1912 advertising was in its infancy: total advertising expenditures approximated $1.0 billion whereas, by 1990, these expenditures were roughly 130 times greater (Levin and Lafayette 1990). Yet, even in 1912, Shaw felt that advertising was a topic of crucial importance, and he recognized that it could effectively sell products:

> [Advertising is] the communication to possible purchasers by written or printed symbols of ideas about the goods, designed to create a demand for the goods (p.744).

Shaw even suggested some principles for creating advertising copy:

> ...use short familiar words expressing their exact shade of meaning;... give preference to figurative language;... suggest a concrete image only after the materials of which it is to be made are conveyed;... avoid abstractions and generalizations where possible;... language should become quick, sharp, and compelling [when suggesting action by the reader] (p.755).

Further, he recognized that advertising could serve a public relations role as well as a selling role. Advertising was more than just a selling tool. The power of advertising could be used to help manage the marketing macroenvironment:

> The railroads annually buy large quantities of newspaper space in which to present facts intended to build up a public opinion favorable to the railroads as a check on adverse legislation (p.745).

He recognized the potential abuses and misuses of this method of communication, and these were later expressed by many writers (see Pollay 1986 for one summary article on advertising criticisms). However, he remained convinced of its importance as a promotional tool when used appropriately:

> That there are evils and abuses in connection with advertising today may be frankly admitted. It is a new economic agency, and ignorance of its true function causes wasteful use. Moreover it lends itself to conscious misuse... The evils must be recognized and combated, but should not cloud the fact that advertising is today an element of tremendous importance in our economic organization (p.742).

Part of the power of advertising as a communications tool results because of the efficiency with which a large audience can be reached. More important is the targeting ability of many advertising vehicles. Shaw noted this feature of periodical advertising (and probably would have noted it for broadcast media advertising, had they been popular during his time):

> The importance of this method lies in the fact that most periodicals circulate within certain fairly well-defined economic and social strata. The ideas and forms of expression that are most effective in one periodical hence may be relatively ineffective if used in another that reaches a different stratum (p.761).

While advertising was becoming an increasingly important communications tool, the problems with measuring its effectiveness were recognized. Shaw realized that the sales that resulted from advertising were not immediately apparent, but must be considered if the effectiveness of advertising was to be measured:

> Expressed conscious demand means present sales; unexpressed conscious demand means future sales; subconscious demand means that the field has been fertilized so that future selling efforts will be more fruitful. Unexpressed conscious demand and subconscious demand are difficult of measure but must always be taken into account in any consideration of the efficiency of advertising as a selling agency (p.746).

While advertising was important as a selling agency, Shaw also argued that, "The direct salesman and advertising are different modes of accomplishing the same end" (p.741). However, there were distinct advantages of using salespeople, and Shaw noted these:

> It [advertising] lacks, however, the personality and the timeliness of the salesman's visit; it lacks adaptability, the opportunity to use the mood of the customer and all the various human factors that add to the salesman's effectiveness... he [the salesman] is on the ground to close the sale at once (p.741).

While there were reasons to use advertising and reasons to use salespeople, "the business man must realize that each distinct geographic region is a separate problem. The whole market breaks up into differing regions" (p.749). These geographic regions change the efficiencies of the two selling agencies:

> ....as he extends his operations in his immediate territory, geographically, that his selling cost steadily decreases, but that when he further extends his market the selling cost increases. He may find that in more distant areas selling by salesman ceases to be profitable, and there he will perhaps establish a more economical system of selling by combination of salesmen and circular letters.... In even more distant areas, it may be necessary to eliminate the salesmen entirely and to sell only by direct advertising (p.751).

SUMMARY AND CONCLUSIONS

Arch W. Shaw has contributed to both the breadth and depth of marketing thought. We believe the article from which we have taken our quotations to support our contention that Shaw deserves a revisit is a seminal article in the early development of marketing thought.

While Shaw is most appropriately associated with the functional school of thought, his discussion of "the functions of the middlemen" comprises only about ten pages. Throughout his writing, there are numerous references to concepts and ideas which suggest that the managerial approach owes him more credit than may be realized.

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