Faculty Working Papers

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Management Concept

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by

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About the middle of the twentieth century the term "marketing concept" came into use to denote the management of the marketing activities of a manufacturing firm. During World War II when little or no marketing resistance had been encountered customers had been allotted quotas and their names had been placed on waiting lists. It was expected that this situation would change and executives began to give marketing activities more attention Firms had become large as the size of markets had increased and executives who had much training and experience in marketing were arriving at positions of influence. In the years when a buyer's market prevailed these executives received a more attentive hearing.

The Consumer Basis

An element of the marketing concept is the firm must be market oriented, the entire firm must be keenly aware of the consumer, the marketing philosophy must permeate the entire firm. From time to time, so it was said, the consumer had been forgotten. Adam Smith, perhaps not the first, commented on the neglect of the consumer in his Wealth of Nations (1776).[1] He said:

> Consumption is the sole end and purpose of all production; and the interest of the producer ought to be attended to, only so far as it may be necessary for promoting that of the consumer. The maxim is so perfectly self-evident, that it would be absurd to attempt to prove it. But in the mercantile system, the interest of the consumer is almost constantly sacrificed to that of the producer; and it seems to consider production, and not consumption, as the ultimate end and object of all industry and commerce.

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1. Adam Smith, An Inquiry Into the Nature and Causes of the Wealth of Nations. New York: Random House, Inc., 1937, p. 625.

Smith probably overstated the case since he said that the primacy of the consumer was so self-evident as to not to need proof. The files of the firms of his day contained correspondence inquiring about the nature of the market and consumer preference in whatever parts of the world a firm traded. Conditions were such, however, that for the next century the primary concern was production and not marketing. The manufacturer of goods for the household consumer depended upon the wholesaler's and the retailer's interpretation of the consumer's preference. It was unnecessary, as Arch W. Shaw pointed out, for the businessman to search out unformulated human needs. Only recently had production outstripped the market and had the businessman become a pioneer on the frontier of human wants. The more progressive man was now (1912) searching out the unconscious needs of the consumer, was producing goods to gratify them, and was bringing to the attention of the consumer the existence of such goods.[2]

Shaw was an astute observer of the business world and had witnessed the growth of advertising and the success of Sears, Roebuck & Company and Montgomery Ward & Company as well as the increase in the number and size of chain stores and department stores. The success of these retailers depended upon their sensitivity to the consumer's preferences and this they expressed through orders placed with manufacturers. It would be a while, however, before manufacturers made a direct and concerted effort to interpret the consumer's needs.

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2. Arch W. Shaw, "Some Problems In Market Distribution." Quarterly Journal of Economics, Vol. 26 (November, 1911--August, 1912), p. 708.

Marketing writers before 1920 were aware of the primacy of the consumer, but they saw, under the circumstances, their task to be describing and analyzing the marketing process and its institutions. Paul H. Nystrom (1915) said that the function of a retail store was to provide its customers with the goods they wanted and when and where they wanted them. It was to be borne in mind continually that it was the consumer who ultimately determined what would be and what would not be in retailing as well as in the entire business world.[3] Since Nystrom was writing about retailing, he necessarily emphasized the consumer, but the concept that a manufacturing firm should be market or consumer oriented was not receiving prime attention.

Early Organization Structure

Organization structure for marketing activities is another element of the marketing concept, and during the first decade of the twentieth century the place of marketing activities in a firm's organization structure was being discussed. In 1909, James B. Griffith conceived the internal organization structure to be divided into two major divisions called commercial and manufacturing.[4] The commercial division included sales, advertising and accounting while the manufacturing division included purchasing, stores, and production. Griffith said that there was a difference of opinion concerning the place of the advertising department in the organization. In some organizations the advertising manager was a subordinate of the sales manager. Thus, Griffith gave early evidence of a long and continuing difference of opinion.

In 1911, Maurice Henry Robinson called the sales department that branch of

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3. Paul H. Nystrom, The Economics of Retailing. New York: The Ronald Press Company, 1915, p. 41.

4. James B. Griffith, "Administrative and Industrial Organization." In James B. Griffith, editor, Cyclopedia of Commerce, Accountancy, Business Administration. Chicago: American School of Correspondence, 1909. Vol. I, pp. 14-19.

a business enterprise through which the goods are marketed. Robinson thus saw the sales department as the marketing department, but at that time the term "sales department" was in common use rather than "marketing department." Robinson included in his concept of the sales department selling, advertising, estimating, and ordering. The extension of credit and making collections was included in the accounting department. Robinson also included a traffic department in his concept of the total organization structure of a firm.

Ralph Starr Butler (1911) noted that in some large firms the advertising manager reported to and consulted with the sales manager, the latter having jurisdiction over the advertising department.[6] Butler, however, offered no comprehensive concept of an organization structure for marketing activities.

The early writers on marketing knew of the work of Frederick W. Taylor and one, Charles W. Hoyt (1912), attempted to apply Taylor's approach, but Hoyt confined himself to the management of the sales force and did not expand his concept to include other marketing activities.[7] In a paper read at the first meeting of the Efficiency Society, held in New York City, March 18 and 19, 1912, Walter H. Cottingham, President of the Sherwin Williams Company, stated what at that time was an advanced concept for the sales department.[8] He said:

> The head of the sales department should be responsible, not only for sales, but for advertising, for traffic, and for the distribution of the product. He should direct all that relates to the selling and handling of the goods after they are delivered by the manufacturing department to the shipping department. Only in this way can he thoroughly and effectively influence the service to customers, which plays such an important part in

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5. Maurice Henry Robinson, "Modern Business Organization and Management." In Walter D. Moody and Samuel McClintock, editors, Business Administration. Chicago: La Salle Extension University, 1911. Vol. II, p. 149.
6. Ralph Starr Butler, "Selling and Buying." In Joseph French Johnson, editor, Modern Business. New York: Alexander Hamilton Institute, 1911. Vol. IX, p.
7. Charles W. Hoyt, Scientific Sales Management. New Haven, Conn.: George B. Woolson & Co., 1912.
8. Walter H. Cottingham, "The Sales Department." New York: The Efficiency Society. Transactions. Vol. I (1913), pp. 121-122.

> building up a successful sales organization. All advertising is selling; and therefore, in order to insure the right kind of cooperation, the advertising department should be a branch of the sales department, which necessitates the head of the sales department being a competent judge of advertising as well as of selling. The distribution of the product, whether direct or through branch houses, involves service to the customers; therefore, the traffic department, which directs the movement of goods, and the branch houses that handle them, should come under the management of the head of the sales department. In no other way can the most efficient service be well secured. The sales department should have an equal or controlling supervision in the credit and collection departments for the same reason that it affects so intimately, and, in the case of these departments, sensitively, the service to the customers.

With reference to the relation of the sales department to the manufacturing department, Cottingham said that it was the business of the sales department to make known their requirements to the manufacturing department, and the manufacturing department should be operated for the benefit of the sales department, and not for the benefit of the factory. The sales department served the customer and the factory should serve the sales department.

This early view of the sales department is essentially the marketing concept that was being discussed so widely fifty to sixty years later. Cottingham's sales department was to have complete control of the product after it was delivered by the production department for shipping. The entire staff from office boy to chief executive was to be imbued with the selling spirit. Their united aim would be to increase demand, not merely to supply demand. Cottingham also held that selling the product in volume at a profit was the object and test of a successful business organization.

In the discussion that followed Mr. H. F. J. Porter, an industrial engineer and Secretary of the Society, had the final word. He said that Mr. Cottingham was not only a salesman, but an organizer, and as such was able in his own factories to develop the various departments so that they balanced each other. Otherwise, the emphasis placed on the dominating importance of the sales department would soon load up the production department with all sorts of special

orders which the consumer was anxious to purchase. No department should be the most important, but all should be equal and cooperating.

A few years later World War I took attention from marketing and placed it on production. Sales departments were reduced in size and virtually became idle as factories were turned from the production of civilian goods to war material. Following the cessation of hostilities, however, there was a switch from a seller's market to a buyer's market and increased attention was given to marketing problems. The relationship of the advertising department to the sales department and the place of these departments in the organization structure continued to be discussed. J. George Frederick (1919) said both departments were technical departments responsible for the single function of sales development, and both the management of the advertising and the management of salesmen should be under a higher ranking executive such as a vice-president in charge of sales, a director of sales, a head of distribution and sales, or a marketing manager who had a wide perspective of selling efforts and was not necessarily a technician in any phase of the work.[9] This was an early use of the term "marketing manager." In the 1920's it would be used more frequently, but it was not the use of the term itself which is significant. The significant thing is the concept of the scope and nature of the activities for which the marketing manager would be responsible.

Expanding the Sales Department

With regard to manufacturing, Frederick W. Taylor (1903) and Henry R. Towne saw the necessity for separating the planning of work from its execution.[9] When hearings were held (1910) before the Interstate Commerce Commission on an

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9. Frederick W. Taylor, Scientific Management. New York: Harper & Row, 1947. This is a reprint of Taylor's two most important publications. Shop Management was first published in 1903 under the auspices of The American Society of Mechanical Engineers. Towne wrote the Foreword when Shop Management was republished in 1911. See pp. 9, 65, and 110 of Shop Management and p. 38 of Scientific Management (1911).

application for increased rates by railroads operating in the East, H. L. Gantt, Harrington Emerson, H. R. Towne, and Frank Gilbreth, among others, gave testimony. Louis D. Brandeis represented the opponents of the rate increase and in his brief said, "Planning is the essence of scientific management" and he quoted Gilbreth as saying, "Separate the planning from the performance."[10] C. W. Hoyt (1912) in his Scientific Sales Management adopted this view and would have a central planning department called Sales Cooperation the function of which would be to coordinate other selling efforts with the work of the salesmen.[11] Hoyt did not at that time have planning and forecasting of sales as a part of his concept, but five years later (1917) he did set forth his concept of a marketing plan which was comprehensive.[12]

Interest in scientific management was stimulated by the railroad rate case and organizations were formed for the promotion and dissemination of management knowledge. One of these was the Taylor Society which at a meeting in Rochester, New York on June 25, 1920 passed a resolution to call a meeting of managers especially interested in sales operations.[13] Committees were appointed on the organization and functions of the sales planning department, the organization and functions of the sales operating department, the selection and training of salesmen, sales quotas, and the preparation of questionnaires. The committee reports constitute an important landmark in the development of the marketing management concept.

The Committee on the Organization and Functions of the Sales Operating

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10. Louis D. Brandeis, Scientific Management and Railroads. New York: The Engineering Magazine, 1911, p. 11.
11. Hoyt, op. cit., p. 25.
12. Hiram C. Barksdale, editor. Marketing in Progress. New York; Holt, Rinehart and Winston, Inc., 1964, pp. 112-119.
13. Bulletin of the Taylor Society. Vol. V, No. 5 (October, 1920), pp. 189, 200.

Department divided selling into:[14]

(a) The making of larger plans for the marketing of a product, involving analysis of the market and the product, the preparation of master schedules, and the coordination of production, financial and selling resources; called Sales Engineering, Sales Planning, Merchandising, Merchandise Control, etc., and in many instances cared for by advertising and selling agencies:

(b) The actual conduct of the selling operations, involving the detail planning of selling operations, the selection, training and direction of the sales force, the detail planning and conduct of selling operations when salesmen are not used, and all contacts with the customer; called in this report Sales Operating.

The Committee on the Organization and Functions of the Sales Engineering Department divided sales engineering into field research, technical activities, and master planning and scheduling. The field research activities were classified under products, marketing policies and methods, and general research covering administrative and management problems. Technical activities covered the following twelve areas:

Products	Trade Organizations
Advertising	Legislation
Selling	Merchandise Stocks
Sales Service	Patents and Copyrights
Markets or Sales Fields	Statistics
Competitors' Activities	Complaints

With reference to master planning and scheduling, the Committee thought that sales engineering should be the coordinating function of the entire business and be months ahead of any of the operating divisions. Only thus could the purchasing, financial, personnel, and production divisions have adequate time to plan for their respective activities.[15]

The recognition of the need for a marketing plan and the importance of coordination with the other divisions of the firm was an unusual concept in

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14. *Op. cit.*, No. 6 (December, 1920), p. 238.
15. *Ibid.*, p. 237.

1920. As with production, the planning of marketing activities was to be separated from the performance of those activities. The scope of the activities was broad, but the terms "marketing division" and "marketing management" were not in wide use. Instead the term "sales management" was used to denote the area of marketing management.[16]

Evolution of the Marketing Division

During the next thirty years a number of academicians and business executives contributed to the evolution of the sales management concept into the marketing management concept. Among these was Percival White whose Scientific Marketing Management (1927) was inspired by Taylor's work. White's purpose was "to set forth the principles of modern scientific marketing" and the development of a procedure "based upon the same principles of efficiency and economy which have been employed in other fields of activity."[17]

As White saw it, scientific marketing was a system aiming positively and throughout at benefiting the consumer. The marketing operations of firms were scattered and marketing personnel were seldom grouped together at the home office. Hitherto there had "been little conscious endeavor to relate all the marketing activities to a scientifically planned system of organization, wherein each particular function operates in coordination with the whole." In the majority of establishments there existed little in the way of marketing organization beyond the sales department. Marketing to many minds was synonymous with selling.[18]

In White's concept the Marketing Manager was to be the chief executive of the Marketing Division and his duty was to direct, coordinate, maintain and

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16. H. R. Tosdal, Problems of Sales Management. Chicago: A. W. Shaw Company, 1921, pp. xx, 1.
17. Percival White, Scientific Marketing Management. New York: Harper & Brothers, 1927, p. v.
18. Ibid., pp. 38, 78-79, 96-99.

measure marketing activities. He discussed the following under the departmentizing of marketing activities:

1. Selling
2. Advertising
3. Sales promotion
4. Traffic
5. Service
6. Credit
7. Market research
8. Marketing planning
9. Marketing training
10. Marketing accounting
11. Purchasing
12. Product analysis

Some of these activities would exist as separate large departments subordinate to the Marketing Manager, but in some instances a department might consist of one man and in the case of planning, the Marketing Manager might also be the head of the Planning Department.[19] Since his system was based on the principles of scientific management, there was to be adherence to the principle of functionalization.

White viewed his concept as a system to be installed in a firm and he expected opposition to its installation from a variety of sources. It would be necessary to generate managerial support for it because some executives would view it as a possible curtailment of their authority or as a method of displacing them. They had developed in a production oriented environment and, therefore, would not be marketing oriented.

In the decade of the 1930's the number of those who contributed to the development of the marketing management concept increased. Lee H. Bristol (1932), a business executive, envisioned a vice-president in charge of distribution, a distribution manager, or a distribution director as being responsible for marketing activities. This distribution director would be a competent specialist in various marketing activities and also would have a perspective of marketing that was both broad and deep. This man would take the product from the factory door and turn it into profits. Bristol thought that increasing importance would be

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19. Ibid., p. 113.

attached to distribution in its broader concept and that "the changes which we are anticipating will be broadly accepted."[20]

O. Fred Rost (1933), the marketing editor of Business Week, held a view that in some respects was similar to that of Bristol. The recent backing up of the flow of goods against production had caused executives to decide that distribution meant more than the mere transportation of goods. In its broader interpretation distribution distribution included all those activities that exert their influence after the manufacturing process has been completed. Among these are packaging, preparation for shipment, the determination of the size of the consumer package and the size of the shipping units, labeling and advertising, and the selling, wholesaling, and retailing activities. In the future it would be increasingly desirable to centralize responsibility for these activities in a director of distribution. The term "marketing" would come to be applied only to those activities concerned with the determination and execution of broad policies under which the products were distributed.[21]

L. F. Urwick (1933) presented an English concept which had the marketing division being responsible for securing coordination between manufacturing and selling. The marketing division was not to be placed over production and sales but was to be a parallel organization unit with its own clearly defined duties and functions of a planning and coordinating type. The responsibilities of Urwick's marketing division were determining:[22]

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20. Lee H. Bristol, Profits In Advance. New York: Harper & Row, 1932. In H. C. Barksdale, editor, Marketing In Progress. New York: Holt, Rinehart and Winston, Inc., pp. 132, 136.

21. O. Fred Rost, Distribution Today. New York: McGraw-Hill Book Company, Inc., 1933, pp. 24, 26.

22. L. F. Urwick, Management of Tomorrow. London: Nisbet and Co., pp. 92-93.

1. What the business should make and sell.
2. The price at which the business should sell the products.
3. To whom the business should sell.
4. When products should be added or withdrawn.
5. The quantities at which the business should aim in the sale of each product line.
6. The standard of quality which the business should seek to maintain.

The marketing division that Urwick envisioned was a facilitating or staff division performing duties and functions already being attended to by someone. What was wanted, however, was a definite, specialized organ within the organism for carrying out these duties.

Urwick was expressing his concept at a time of great economic upheaval. He believed that emphasis had been improperly placed on production. For almost a century there had been a pronounced seller's market and the main concern had been with the development of new means of production and transportation. Businessmen had taken to thinking of production first and distribution afterwards. The main job of distribution was not to get rid of what production made, but to tell production what to make. Market research while of great importance was almost always undertaken with a view, not of finding out what the consumer's habits really were, but to sell what some manufacturer could make. Urwick offered his concept of the Marketing Division as the solution to the problem.

A broad view of what should be the responsibility of the Marketing Division continued to evolve. Bernard Lester (1935) saw every departmental activity of a machinery manufacturer as having an affect on customer relationships, as either building up customer relationships or tearing them down.[23] He then discussed how manufacturing, design, research, patent, credit, and service and installation activities have a bearing on customer relationships. He did not advocate any particular organization structure but said that "the structure,

23. Bernard Lester, Marketing Industrial Equipment. New York: McGraw-Hill Book Company, Inc., 1935, p. 186.

character, and size of the sales organization" depended largely upon the product or products offered for sale and the methods of distribution.[24] It is to be noted that he used the term "sales organization" rather than "marketing orgization.

Writers on sales management in the 1930's saw the relationship of selling to the other activities of a firm, but the department that they were discussing was the sales department and not a marketing department or division. Tosdal (1940), however, did say, "In a broader sense, the chief executive is a marketing manager, the person who is responsible for formulating and carrying out the plans for marketing the product; he is both a planning and an operating official."[25]

The Total Concept

Following World War II, as the restrictions on production for civilian use were lifted and a buyer's market developed, there was a renewed interest in marketing. The broadened concept of marketing was known by the executives of General Electric and in the Company's annual report for 1952 it was stated:[26]

> In 1952 your Company's operating managers were presented with an advanced concept of marketing, formulated by the Marketing Services Division. This, in simple terms, would introduce the marketing man at the beginning rather than at the end of the production cycle and would integrate marketing into each phase of the business. Thus marketing, through its studies and research, would establish for the engineer, the designer and the manufacturing man what the customer wants in a given product, what price he is willing to pay, and where and when it will be wanted. Marketing would have authority inproduct planning, production scheduling and inventory control, as well as the sales distribution and servicing of the product. This concept, it is believed, will tighten control over business operations and will fix responsibility, while making possible greater flexibility and closer teamwork in the marketing of the Company's products.

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24. Ibid., p. 165.
25. H. R. Tosdal, Introduction to Sales Management. New York: McGraw-Hill Book Company, Inc., 1940, pp. 320-321.
26. General Electric Sixty-First Annual Report. Schenectady, N.Y.: General Electric Company, 1953, p. 21.

This statement attracted widespread attention and much discussion of the "marketing concept" followed. Edward S. McKay, a General Electric executive, saw the concept as calling for a factual marketing plan, a functional organization structure, and a professionally managed operation. Professional marketing management, as he defined it, was the organizing and carrying out of all the functions involved in planning and moving products to the consumer with optimum sales volume and profits.[27]

Three years later (1957), Fred J. Borch, subsequently President of General Electric, saw marketing as a fundamental business philosophy and organizational structuring as the implementation of the philosophy. The marketing philosophy rested on two fundamentals, the "dual-core" job of marketing and the profit concept. Businesses must be focussed on the customer's needs and desires. Only after identification of these needs could marketing people lead the way in determining what should be done to provide the necessary products and services. Borch emphasized that the marketing philosophy rested on the profit concept, not the volume concept.[28]

Numerous speeches and articles in the 1950's and 1960's advocated the adoption of the marketing concept as a philosophy in which the entire organization should be indoctrinated. The firm must be tuned to the wants of the consumer whether he was an industrial consumer or a household consumer. The wants of the consumer must be known, their implications grasped, and interpretations of them made in terms of the firm's products, services, and profit objectives. The ever-changing nature of these wants must be accepted and an

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27. Edward S. McKay, "How to Plan and Set Up Your Marketing Program." Marketing Series. No. 91. New York: American Management Association, Inc., 1954, p. 3.

28. Fred J. Borch, "The Marketing Philosophy As A Way of Business Life." Marketing Series. No. 99. New York: American Management Association, Inc., 1957, pp. 3, 5.

attempt must be made to adjust the firm and its products to the changes.

In the organization structure responsiblity and authority were to be so arranged as to give effect to the marketing orientation of the firm. Product planning, pricing, channels of distribution, product servicing, warehousing, traffic, advertising, marketing strategy, and the control of marketing operations were to be within the scope of the marketing division of the firm.

Integration of functions was an important element of the concept. Marketing functions were understood to be a unit of related functions or activities that was inseparable from other functions of the firm. The life of the firm began with cash and then equipment, raw materials, and services were purchased. Operations were performed and products manufactured, sold, and converted back to cash. There was a circular flow that depended upon all functions of the firm. When the performance of the marketing functions did not return an adequate amount of cash, the performance of other functions ceased. In the opposite manner, if other functions were performed inefficiently, the performance of the marketing functions was adversely affected.

Planning was an essential element of the concept. The appropriate sales volume must be planned so that the firm's profit objective would be accomplished. Departmental objectives must be established and coordinated. To do this, it was necessary to gather and process scientifically data about the market and the marketing operations of the firm.

Evaluation of the Concept

Awareness of the consumer was not something that suddenly occurred following World War II. Manufacturers and distributors had long understood the importance of the consumer and when they failed to do so, they were reminded by

the accumulation of inventories. Following the War, as customer waiting lists disappeared and competition increased, the popularity of resale price maintenance declined, the discounter flourished, and the cause of the consumer became popular. In this atmosphere business executives could understandably assert their awareness of the importance of the consumer. Marketing executives who had been trained in marketing were well aware of the fundamental importance of the consumer. There were others, however, who had recent experience in the production of war material as well as consumer goods for a seller's market. The problems of marketing for the most part were unknown to them.

Experienced marketing executives, now with the ear of top management, possibly sensed an opportunity and set forth on a program of making management conscious of marketing. Some of these knew of the writings Taylor, White, Bristol, Urwick, and others and could support with logic the case for making the marketing division the dominating division of a firm. Those who had experience in sales management were suitably equipped to push the cause for an organizational division of broad scope, but their efforts would not have had any widespread and lasting success had there been no sound basis for urging the adoption and implementation of the marketing concept. The concepts of coördination, planning, and functionalization were old in management theory and writers and speakers had long before illustrated and urged an increased application of these concepts in the marketing area. During the War, with consumer goods rationed and wholesalers and retailers on allottments, there was little or no need for market planning. Sales departments were greatly reduced or practically disappeared. It was now necessary to rebuild these departments, often on a larger scale. Population was increasing and the growth of markets was being accelerated by increasing incomes and improvements in transportation and communication. An opportunity existed for larger business

units and the accompanying larger units of internal organization structure, particularly that dealing with the marketing of a firm's products.

Although the marketing executives of some firms would have had the marketing philosophy prevailing throughout the firm and the marketing division dominating the organization structure, it is doubtful that this view was completely implemented. The marketing executive is subjected to pressures from customers which if yeilded to would increase manufacturing costs, endanger the firm's liquidity as well as result in increased marketing costs. Consequently, the chief executive of a firm, although he might have been marketing minded, found it necessary to control and coordinate marketing activities in a manner that an optimum profit might be earned. The marketing divisision, admittedly having important responsibilities, was to be managed in a manner that would effectively contribute to accomplishing the firm's profit objective.