APPLICATION OF THE THEORY OF MARKETING TANGIBLE GOODS TO THE MARKETING OF INSURANCE

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During the post-World War II years, discussions of marketing theory have occupied prominent positions on the programs of conferences and seminars and have accounted for a burgeoning literature of some note. In part, such attention has resulted from the sincere desire of thoughful students to integrate the mass of specific marketing knowledge accumulated for nearly a half century. In another respect, however, interest in theory is a not unexpected response to the stimulus of status-craving on the part of those energetic students and practitioners anxious to share in the respectability presumably afforded by the word *theory*. A corollary of the emphasis on theory is the continuing resolve to view marketing more as a science than as an art.

Is There a Theory of Marketing Tangible Goods?

It is proper to ask if there is a theory of marketing tangible goods. If an answer is in the affirmative, it should be relatively simple to proceed to the question of the application of such theory to the marketing of insurance. If the answer is in the negative, this article may quickly be brought to an end. But if, as seems likely, the answer is inconclusive, with numerous qualifications and provisos attached, effort must be devoted to explanation and delineation before conclusions can be drawn concerning application to insurance.

Meaning of Theory

To begin with, the meaning of "theory" must be made explicit. Although there are many available definitions of the word, it is proposed that a theory immediately be defined per Baumol [1] as "a structure which describes the workings and interrelations of the various aspects of some phenomenon." In most disciplines, e.g., physics, astronomy, economics, sociology, the theorist examines a set of facts from the real world and devises a structure which takes the form of a simplified model, embracing hypotheses, principles, and—perhaps—facts arranged in harmony with a pattern of assumptions held by the theorist. Almost always, the assumptions control the selection of facts used in his examination of the phenomenon. The model should obviously behave to a considerable extent like the phenomenon, but with a liberal dash of make believe, in view of the simplification implicit in the model.

Marketing Theories

In 1948, Alderson and Cox wrote an

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[1] W. J. Baumol, "On the Role of Marketing Theory," in E. J. Kelley and W. Lazer, *Managerial Marketing: Perspectives and Viewpoints* (Homewood, Illinois, Richard D. Irwin, Inc., 1958), p. 420.

article entitled "Towards a Theory of Marketing"[2] which commanded immediate interest. Two years later, the same authors edited an American Marketing Association symposium, *Theory in Marketing*[3] which "reviewed contributions to marketing theory from many sources—traditional economics, economic geography, vector psychology, the methodology of experimental inference, political science, new insights into the nature of the firm, and past marketing studies."[4] Then, in 1952, Umemura, writing in an Indiana University Symposium, advanced the thesis that the Classical School of economists possessed "a surprisingly clear and remarkable understanding of the nature and process of marketing as it is recognized today."[5] Umemura found that embodied in the treatises of the Classicists is a well-integrated theory of marketing, providing a rational explanation of the role of marketing in the economic order. The theory

> is fashioned around the concept of specialization from whence a dichotomous rationale of marketing is evolved. First, division of labor necessitates exchange, and with exchange there must be marketing activities. Thus, marketing, in effect, becomes the core of the economic process. Secondly, with the application of the specialization concept, it is logical that some workers would specialize in manufacturing activities while others would concentrate on buying and selling and other functions commonly classed as marketing. By the same line of reasoning the Classical theorists explain how there may be specialization by types of businesses, and they develop a rational economic justification for middlemen upon this basis. In this manner, the Classicists vividly reveal that marketing is both the result and manifestation of the division of labor.
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> With the extension of the concept of specialization, the Classical scholars provide meaningful economic explanations for the following issues: 1) the division of marketing middlemen by retailers and wholesalers, 2) the development and existence of various types of retail establishments, 3) the advantages of large-scale retailing, 4) the limitations of forward vertical integration, and 5) the level of total marketing cost.[6]

However, despite Umemura's penetrating analysis, it is doubtful whether many students of marketing would accept his findings as proof of a full-blown theory having emerged from hindsight synthesis of material not purposefully directed to theoretical constructs of marketing.

The appearance of Alderson's book, *Marketing Behavior and Executive Action*[7] in 1957 marked a significant forward step in the development of theory. But, as Baumol points out:

> While it is rich in insights drawn from experience, it cannot be characterized as a description of marketing processes and institutions. It does not pretend to create a comprehensive new model for the marketing mechanism. Attainment of such a goal would be too much to expect of a path-breaking work in any young discipline. But the book succeeds entirely in its more modest purpose: the provision of perspectives for model building directed either toward general interpretation of marketing or the solution of individual problems.[8]

Since rational problem solving is the dominant theme of the book, there is agreement with the "economic man" premise of the Classical economists.

Aspinwall has constructed a brace of

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[2] *Journal of Marketing*, Vol. XIII, No. 2, (October 1948).

[3] R. Cox and W. Alderson, (eds.), *Theory in Marketing* (Homewood, Illinois, Richard D. Irwin, Inc., 1950).

[4] S. C. Hollander, "Looking Around: New Marketing Concepts," in Kelley and Lazer, *Managerial Marketing: Perspectives and Viewpoints*, *op. cit.*, p. 460.

[5] G. M. Umemura, "The Classical School and a Theory of Marketing," in *Marketing: Current Problems and Theories*, S. F. Otteson (ed.) (Indiana Business Report No. 16, Indiana University, 1952), p. 19.

[6] *Ibid.*, pp. 27-28.

[7] W. Alderson (Homewood, Illinois, Richard D. Irwin, Inc., 1957). The subtitle of this book is "A Functionalist Approach to Marketing Theory."

[8] W. J. Baumol in Kelley and Lazer, *op. cit.*, p.

theories offered as "tentative suppositions, provisionally adopted to explain facts and to guide in the investigation of others."[9] One theory, termed the Characteristics of Goods Theory, attempts to classify all marketable goods in a scaled array, in order to furnish perspective and frame of reference for organizing marketing facts and for weighing decisions. A second construct, labeled the Parallel Systems Theory, is presented as an explanation of the parallel relationship between so-called distribution systems and promotion systems of goods. Yet, these theories seem basically just to be elaborations of long-accepted classifications and relationships familiar to all marketing students. They are empirically determined and offer little in the way of true explanatory value.

The attempts at developing a theory of marketing of tangible goods, so briefly sketched above, are praiseworthy, and they are bound to be of great value to further attempts in the future. The chief barriers in the path of development of a single theory covering all tangible goods marketing are that (1) marketing is highly complex and amorphous in the aggregate, with vague and shiftable boundaries, and (2) macro- and micro- viewpoints relative to marketing are intertwined and subject to much confusion.[10]

Some description and explanation of successful micro-marketing—assumed to be of greater interest to the reader than macro-marketing—would certainly seem possible of accomplishment and might, thereby, be the basis for an eventual theory. The trouble is, of course, that imprecise generalizations must initially be substituted for precise, testable hypotheses and rigorously stated principles. The remainder of this article is devoted to a summation of five principles (so-termed, at least) which might conceivably form the nucleus of a fairly detailed and logical theory of the micro-marketing of tangible goods and which, in the hands of sophisticated managements, might have some predictive value.

Five Principles of Micro-Marketing

Of the five principles set forth below, three, and perhaps even four, are as pertinent to the marketing system as to the firm's marketing efforts. Discussion is, however, directed to a micro-view. It is, to be sure, presumptuous to think of these as principles of *successful* marketing, yet such is the intention in presenting them.

Marketing Is Productive

Management must believe in, and adhere to, the principle that marketing is productive, if the best interests of the organization are to be served. In the economic sense, production is the creation of values through the addition of utilities, *i.e.*, the capacities of goods (and services) to satisfy human wants. Four types of utilities are generally recognized, namely, form, place, time, and possession. Of these, all but form utility are added by marketing.[11]

Thus, the retailer or wholesaler is as much a producer as is a manufacturer who changes the form of materials. As a corollary, all who engage in marketing are productive and make a contribution to the economy. A post-World War II conceptual development stems from the foregoing. This is the concept of "value added by marketing."[12] Widespread adoption of this concept in measuring the output of

[9] L. Aspinwall, "The Characteristics of Goods and Parallel Systems Theories," in Kelley and Lazer, *op. cit.*, p. 434.

[10] A macro-view of marketing treats the system as a whole, or a major segment thereof, in the economy. A micro-view considers marketing by and within the individual firm.

[11] A full and lucid treatment of the relationship of marketing, production, and economic value may be found in T. N. Beckman, H. H. Maynard, and W. R. Davidson, *Principles of Marketing* (6th ed., New York: Ronald Press Co., 1957), pp. 6-8.

[12] See, for example, Beckman *et al., op. cit.*, pp. 710-725.

marketing institutions, along lines used for years by the Bureau of the Census in measuring value added by manufacture, emphasizes the productive character of marketing and places marketing costs in their proper perspective. To speak of value added by marketing is to shift emphasis from costs and wastes to values created, from a negative to a positive approach toward the role of marketing in the operations of the firm. The essentiality of marketing functions is thus made evident to all parts of the organization. In the absence of a value added approach, marketing executives are constantly cast in the role of apologists and top management is prone to underrate the central importance of marketing in the strategy of business success.

Marketing Is Customer-Oriented

Marketing has—or should have—priority of management attention within the firm, only by virtue of the fact that the market wields veto power over all other activities and responsibilities. It is the market, hence customers, which sanctions all steps prior to and including the sale and servicing of goods.

Recognition of the customer as the focal point of market effort seems obvious, nevertheless all too many firms lose sight of this in their assignment of relative goals. For example, products (including insurance policy forms) are apt to be regarded as physical entities, notwithstanding the fact that customers are interested in purchasing bundles of utilities yielding satisfaction in consumption. As Davidson has observed in connection with marketing in the appliance industry:

> I suggest that the industry usually is guilty of thinking about the things that it sells in terms of their physical dimensions or in terms of the way it tries to advertise or sell them not in terms of how the product will do the things that people want or need to have done.[18]

Thus the concept of "product" must extend well beyond the confines of something material or technical. Service following the sale is one important item in the bundle of utilities, especially in the case of insurance.

Full acceptance of the customer-orientation principle necessarily demands vigorous and continuous research on market characteristics and the various aspects of consumer behavior. The popularity of motivation research in recent years attests to the concern of many companies in learning more about consumers. Despite the faddish flavor of much such research, progress has been made in fathoming buying behavior, with attendant values for customer orientation. Certainly many insurance companies appreciate the value of marketing research in guiding management to proper goal-directed effort.

An integral part of good marketing research is provision for continuous market feedback. Current information on market position in the distribution of tangible goods is essential for minimization of misdirected marketing policies and operations. Without the services of such organizations as A. C. Nielsen Company and Market Research Corporation of America, many of our leading manufacturers of consumer goods would be greatly disadvantaged in the competitive swirl.

A facet of customer orientation having implications for insurance is the relative freedom of large numbers of middlemen, as purchasing agents for their customers, to make supplier choices. That is, channels of distribution for many products are determined as much by middlemen as by manufacturers. The traditional notion that channels are selected solely by

[18] W. R. Davidson, "Marketing Concepts That Will Shape Tomorrow's Business," *NARDA News*, Vol. 16, No. 6, (Feb. 24, 1958), p. 6.

manfacturers is true only in the short run.[14]

Marketing Is Dynamic

That marketing is truly dynamic is very apparent. Examples abound of innovations in marketing during just the last decade. As Leavitt notes:

> Some of them are easily as dramatic and revolutionary as automation on the assembly line. Nobody in marketing needs to feel inferior in the presence of cyberneticists. There is nothing matter of fact about the exciting marketing developments represented by vending machines, prepared frozen foods, precut meats, motels, branch department stores, customer self service, suburban shopping centers.[15]

Yet, unlike product innovations, most marketing innovations have been unplanned and often accidental results of the inexorable march of events in business. The lesson is clear. Progressive management must organize for prosecuting systematic programs of marketing experimentation. Marketing equivalents of Research and Development departments should be created and given appropriate status within companies.

Morrill has pointed out a number of marketing innovations in insurance, although some of them are more "product" than marketing in nature. Included are the Family Life Policy, monthly premium payment plans, pre-authorized checks, and acquisition of life insurance affiliates by fire and casualty firms. These all represent recognition of the dominance of the middle-income, mass market for insurance and the consequent opportunity for multiple-line marketing.[16]

Marketing Is for Profit

The fourth principle undergirding the rudiments of a micro-theory of marketing, relates to the profit goal of marketing and, hence, total company effort. This is to say that top management's philosophy must incorporate the profit concept rather than the volume concept as a way of business life. It is not, of course, suggested that volume should be eliminated as a source of profits; this would be a ridiculous point of view. Management should, however, cast aside the goal of volume for the sake of volume alone, except for short-run tactical purposes necessary to fulfillment of long-range strategy having the profit goal.

Marketing Is an Integrated Complex

Acceptance, particularly of customer orientation and the profit goal as two marketing principles auguring successful marketing by the firm, implies a new kind of internal company organization, depicted in one recent volume as:

> . . . a new kind of setup to bring together the skills, equipment, space, and materials differently. Marketing management will take over the total planning for the market; and its greatest contribution to profitable operations will be through coordination and integration of the many activities directed at the single objective of profitable customer making and the satisfaction of customer needs.[17]

Because of the form utility production orientation of most manufacturing firms, many activities now assigned to other departments must be transferred to marketing. Examples of such activities would be product planning, transportation, public relations, forecasting, and finished goods inventory control. By such transfer the principle that marketing is an integrated

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[14] For further insights into channel relationships, see p. McVey, "Are Channels of Distribution What the Textbooks Say?" *Journal of Marketing*, Vol. 24, No. 3, (January 1960), pp. 61-65.

[15] T. Leavitt, "Growth and Profits Through Planned Marketing Innovation," *Journal of Marketing*, Vol. 24, No. 4, (April 1960), p. 1.

[16] T. C. Morrill, "Creative Marketing of Life Insurance," *Journal of Marketing* Vol. 24, No. 2, (October 1959), pp. 11-16.

[17] H. Lazo and A. Corbin, *Management in Marketing* (New York: McGraw-Hill Book Co., Inc., 1961), pp. 23-24.

complex becomes operational. Lazo and Corbin observe certain personnel implications of the integrated complex concept as follows:

> Because *marketing* has been, until recently, synonymous with *selling* in most companies, it has been difficult for many business executives to make a sharp distinction between marketing and selling in the revised company setup. . . . The practice of changing the name of the chief marketing executive to vice-president (or director of) marketing is growing. And a clear line of distinction is being drawn between *sales* —the activity of getting the volume—and *marketing*—the planning and coordinating of all the distribution functions of the firm for profitable selling.[18]

Conclusion

Despite the fact that the marketing of insurance does not encompass a number of activities essential to the marketing of tangible goods—for example, storage and transportation—and that there are several other significant differences between the two areas of marketing, as revealed in Warren N. Cordell's analysis in this issue, it seems obvious that the five principles set forth in this article apply with about equal force to the marketing of insurance.

[18] *Ibid.*, p. 25.