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Competition, cooperation and open price associations

Relationship marketing and Arthur Jerome Eddy (1859-1920)

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Abstract

Purpose – The purpose of this paper is to rethink the historical emergence of relationship marketing using the work of an early economics writer.

Design/methodology/approach – The approach of the paper is a historical review.

Findings – It is demonstrated that Eddy's major publication, *The New Competition*, articulates an argument central to relationship marketing, in terms of the value accorded to inter-firm relationships. In doing so, this paper extends the work of Keep *et al.* on relationship marketing and Hollander's own reflection on the nature of competition.

Practical implications – Commensurate with studies that explore the "dark-side" of relationship marketing, this paper shows how close organizational relations do not necessarily increase the efficiency of the market.

Originality/value – This paper undermines the argument that relationship marketing emerged in the 1970s. It thereby adds further weight to the idea that relationship marketing is not a new paradigm in marketing theory or business practice.

Keywords Relationship marketing, Marketing theory

Paper type Research paper

> Over the past two decades, interfirm cooperation has emerged as a significant area of managerial practice and academic inquiry. In the realm of practice, cooperative interfirm relations have been successfully employed in both vertical relations (between channel members) and horizontal relations (between competitors) as a means of gaining access to new knowledge and of reducing the costs and risks of developing new products and processes (Rindfleisch and Moorman, 2003, p. 421).

> This is not only a scientific age but a day when the value of coöperation is being demonstrated on an ever broadening international scale. The industry of the future will be grounded altogether on a mutuality of interests (Cooke, 1919, p. vi).

Introduction

When we turn to the generally accepted view of the history of marketing practice and thought, we are often confronted with a teleological narrative that depicts marketing having developed through production, sales, marketing and relationship marketing eras. Relationship marketing, as a brief review of the literature testifies, is currently a very prominent topic (Aijo, 1996; Haytko, 2004). Some have claimed that it is a new paradigm for marketing theory (Aijo, 1996), while others have been slightly more reluctant to support this view without inserting some qualification (Sheth and Parvatiyar, 1995).

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Sheth and Parvatiyar (1995, p. 399) have argued that "relationship marketing in the post-industrial era is a clear paradigm shift." Other prominent scholars have advocated similar views in the sense that they propose that transaction marketing, with its short-term focus on the single sale, lack of customer orientation and disregard of the importance of customer retention, was the overriding approach adopted by many business concerns until relatively recently (El-Ansary, 2005; Palmer *et al.*, 2005). In stronger terms, El-Ansary (2005, p. 47) implies that we no longer need to examine the history of relationship marketing because its "evolution [. . .] has been thoroughly examined."

This paper refuses to support the discursive closure El-Ansary espouses and questions the thesis that relationship marketing really is a new concept and business practice (Brown, 1998; Ballantyne *et al.*, 2003; Berry, 1995; Egan, 2003, 2004; Petrof, 1997). That relationship marketing has a longer lineage than conventionally asserted in the literature is not really a shock. As Mattsson (1997, p. 447) realized: "The new emphasis in marketing on 'relationships' between seller and buyer has deep historical roots in marketing itself."

It is quite clear, this paper will argue, that the formation of relationship bonds between an organization and its customer base, a customer focus and a desire by firms to develop long-term relationships with others in the same industry, are prominent themes in the early 1900s. These are claims that echo those made by Tadajewski (2008) in his study of the business philosophy of John Wanamaker, as well as those discussed by Keep *et al.* (1998).

Since this special issue is dedicated to the work of Stan Hollander, the contribution of this paper is not restricted to further questioning the "paradigm shift" narrative described above. Hollander, in his doctoral dissertation and early work (Hollander, 1955), examined the retailing system and the extent to which firms were committed to the so-called one price system (Hollander, 1986a). Whilst Hollander focused on retailing, this paper will scrutinize the business-to-business system and the "open price associations" (Eddy, 1912/1915) which were engaged in diffusing an inter-firm cooperative discourse throughout the business community in the early twentieth century. This paper therefore works across three topics that Hollander was concerned with: price determination, competition and relationship marketing.

I will highlight the value accorded to cooperation rather than competition between business concerns, and demonstrate how Eddy (1912/1915), as well as marketing scholars including Tosdal (1917), appreciated the value of firm-to-firm relationships. To begin this paper, I focus on Arthur Jerome Eddy, the man (Plate 1). After this, attention will be devoted to the historical context in which Eddy was writing. Then I turn to examine Eddy's seminal text, *The New Competition*, in order to substantiate the key argument here that he demonstrates considerable awareness of the value of inter-firm cooperation, rather than – as we might expect, if the "paradigm shift" argument relating to relationship marketing were true – organizational atomism and a transaction orientation.

Ganton & Co. and *The New Competition*

As a graduate of the Harvard Law School, and a practicing attorney, Eddy (1859-1920) (Plate 1) authored numerous books[1] (Eddy, 1907, 1908a, b, 1921); he was a patron of the Chicago Art Institute, as well as the subject of a painting by James McNeill Whistler.

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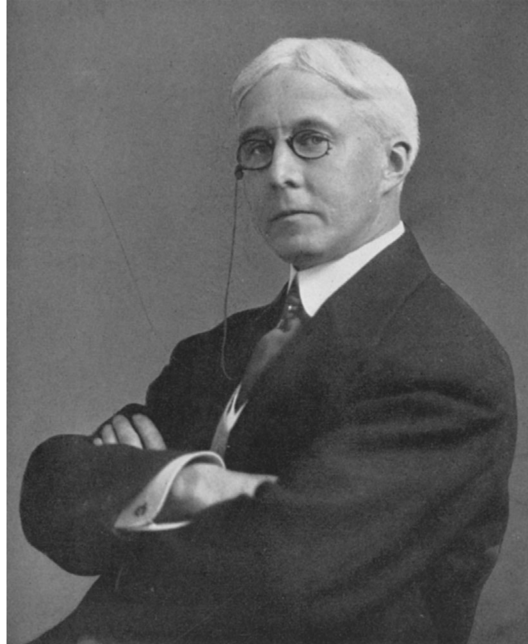

Source: Eddy (1921)

Plate 1.
Arthur Jerome Eddy

Eddy, certainly, led what can only be described as a varied life. Academically he adopted an interdisciplinary orientation and his scholarship operates on the border of economics and law. And despite the lack of familiarity that many will now have with Eddy's writing, it did garner the attention of marketing scholars when it was first published. *The New Competition* appeared in Fred Clark's bibliography that detailed the 1920s marketing literature (Converse, 1945). Discussions of trade associations (another term used to describe Eddy's "open price associations") also appeared in the earliest courses of marketing (Maynard, 1941). Tosdal (1917, p. 331, note 2) likewise, remarked that Eddy's "book has been read by increasing numbers of businessmen."

On reading *The New Competition* we are immediately confronted with the assertion that Eddy's (1912/1915; emphases in original) text is a reflection on the "*conditions underlying the radical change that is taking place in the commerical and industrial world* – THE CHANGE FROM A *COMPETITIVE TO A COÖPERATIVE BASIS*." If a relational definition of marketing talks about the management of "customer relationships in ways that benefit the organization and its stakeholders" (Keefe, 2004, p. 17), this approach necessarily suggests that the organization will cooperate with their respective relationship partners. From the first few pages of Eddy's major work, one is left with the impression that it does not speak so much to the transaction orientation

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that we are led to believe was the premise underlying business activities until the 1970s, but that inter-firm cooperation was at least theoretically demanded.

However, before we continue further into Eddy's seminal study of the effects of competition, we would do well to remember that most ideas are not found in a scholars' work fully matured, without having been fleshed out in a less complete form elsewhere. Eddy is no exception to this rule. Many of the themes that he describes in his 1912 text are first expressed in a work of fiction he published in 1908.

Ganton & Co. (Eddy, 1908a) describes the competitive social and commercial life characteristic of Chicago in the late 1800s. Centering on the business activities of John Ganton, a slaughter house operator in Chicago who dispatched "more than twelve thousand cattle, about the same number of sheep, and thrice as many hogs every twenty-four hours" (Eddy, 1908a, pp. 9-10), Eddy (1908a, p. 14) touches upon issues ranging from a customer orientation, the formation and cultivation of business relationships (p. 41), the cooperation of employers and employees (p. 82), organizational cooperation and dialogue (p. 210), the "darkside" of unionism (p. 216) and the impact of organizational combinations on competition (pp. 299-300).

Having briefly acknowledged the earlier publication that served as an intellectual foundation for his later studies, I will now discuss the historical context in which Eddy was formulating his ideas. This will provide us with some insight into why organizational cooperation was such an important topic for Eddy and his supporters. From this, the analysis focuses on Eddy's (1912/1915) study, linking this work with appropriate comments upon "open price associations" found in the wider marketing, management, politics, law and economics literatures.

Historical context

The turn of the twentieth century was nothing if not revolutionary on a variety of fronts. New technologies had been adopted by business practitioners that improved the efficiency of production techniques, as well as radicalizing the means of communication available to those seeking to expand their markets; a task that was facilitated further by the developments in the transportation infrastructure. The birth of marketing as an academic discipline was on the horizon, yet in spite of the perspicuity with which practitioners and scholars appreciated the need to rethink business practice, studies that chart the history of relationship marketing generally assert the view that one-shot transactions were widespread; relationships between seller and buyer or industry partners were almost non-existent, and caveat emptor was the axiology permeating business practice.

These arguments are not entirely incorrect. Notorious examples of business people who sought to maximize their profit levels to the detriment of future business relations can be easily located (Brown, 2001). From the late 1870s, however, many scholars and practitioners were interested in modifying the structure of marketplace exchanges. There was a great deal of concern regarding "destructive competition," particularly its effect on power inequalities in the market, and the potential monopolization of industry by the Robber Barons, the large trusts and corporations.

Like the World Wars that were to follow it, the American Civil War stimulated the growth of the American industrial structure, and Foote (1912) suggests that declining profits, as well as the high-sunk costs associated with running large industrial complexes, "forced owners to seek a constantly increasing business in

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order to make a profit. This brought them into direct competition with each other" (Foote, 1912, p. 112). The intensity of this competition was a relatively new feature of the business climate, and Foote depicts it steadily increasing until the 1893 recession (Lamoreaux, 1988).

In terms of a relationship marketing orientation, it is obvious that some firms registered the importance of retaining the most highly skilled members of their workforce and the necessity of maintaining relationships with relevant stakeholders. It is not too far-fetched to state that some industries shared a structure akin to those associated with the "network economy" (Achrol and Kotler, 1999). Berk (1994, p. 47) gives us some indication about how widespread views were, that chime with relational thought (Scranton, 1991), when he comments that:

> [...] firms in machine tools, metal working, specialty textiles, pottery, and furniture were most successful when they placed collective limits, or standards, upon competitive activity. Like their capital intensive counterparts, companies in these industries were also subject to cut-throat competition. Tied as they were to a skilled labor force, to one another and to their clients, specialty producers were unable to sever their relations when business was slow without incurring substantial costs to flexibility and the capacity to innovate.

Toward the end of the 1800s and following the recession in the mid 1890s, business people grew increasingly aware that competition, on the basis of price, was not necessarily the most effective way to achieve organizational objectives, especially profit objectives (Gwynn, 1912). Many firms, Eddy indicated, were engaging in such excessive price competition that they ended up bidding on a contract regardless of whether they would recoup their outlay or not. As we shall see, this was a function of the fact that cost accounting practices were not widespread, especially among smaller concerns. These issues rose to prominence in a particularly vivid fashion courtesy of the price "crisis of 1907" (Lyon and Abramson, 1936, p. 11).

Writing just after the spectacular fall of stock market prices characteristic of that year, Eddy critically examined the notion of competition that government, the legal community, as well as the lay population subscribed to; this was part of his plan to redirect attention away from the types of destructive competition that he considered to be stultifying industry (Bellamy, 1886/1996; Tawney, 1927). Destructive competition, he asserted, was a remnant of a bygone past, which had no place in the modern world:

> Competition was the life of trade only when trade was piratic, merciless. Competition, good, old-fashioned "cut-throat" competition, belongs to trade's buccaneering days when every industry flew the black flag and the appearance of a competitor meant war to the knife. Conditions have changed, men no longer look upon one another as industrial and commercial brigands. We are far from an era of good feeling, of mutual confidence and hearty cooperation, but the world is working that way (Eddy, 1912/1915, p. 5; Cabot, 1925).

Nonetheless, Eddy was left wondering why business people continued to view their activities through the prism of "old competition". "There is no reason", he opined, "why cordial, friendly and genuinely social cooperation should not take the place of vicious, vindictive and unfriendly competition. There is no reason why a desire that all should prosper should not take the place of the present hope that all but self shall fail. There is no reason why industrial peace should not take the place of industrial war" (Eddy, 1912/1915, p. 109) since industrial war, as Eddy put it, was detrimental to all engaged in market exchanges.

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The need for inter-firm cooperation

> There is mounting evidence of a movement from the traditional adversarial relationship between suppliers and their customers towards a new form of relationship based on cooperation. This emphasizes a long-term very close relationship and a win-win philosophy rather than the win-lose philosophy inherent in adversarial relationships (Christopher *et al.*, 1991, p. 24).

The shift from looking at businesses as wholly independent from one another to appreciating the advantages of inter-organizational cooperation is characterized by Foote (1912, p. 113) as the start of an "era of peace and good-will among business men." As I shall discuss below, this change in business practice was not immediate, nor did all commentators agree that inter-firm cooperation was valuable to society. Indeed, the general public were concerned that business people could not resist manipulating levels of production and consequently prices (Veblen, 1919/2005), in order to secure the maximal amount of income from the consumer (Frederick, 1930). In the words of Eddy (1912/1915, p. 88):

> The public is saturated with the notion that potential competition is true competition, that competition, like bogey men, should be present in the dark to frighten prices down, that anything like friendly intercourse between competitors is a step toward the suppression of competition and reprehensible.

Eddy, by contrast, presented an image of business-customer relations that provides an effective counterpoint to the above account. Far from the marketing system being in the kind of "balance" that John Wanamaker (Tadajewski, 2008) or White (1927) demanded, it was the buyer who was believed to possess the most power in exchange relationships: "three times out of five it is the buyer who has the seller at his mercy rather than the reverse" (Eddy, 1912/1915, p. 190; Anshen, 1941, p. 249; Lynd, 1932, 1934; Nelson, 1923b, pp. 268, 271, 272; Watkins, 1928, p. 49). In keeping with the advice that Defoe (1727/1987) offered to small shop owners in terms of pandering to the customers' requirements and avoiding the display of any opinions or attitudes that may offend the prospective purchaser, Eddy (1912/1915, p. 190) describes the "obsequiousness of the tradesman" who "solicits, begs, [and] implores custom."

This salesperson exhibits great caution in their relations with the customer, sometimes to the extreme of ignoring the *ad hominem* criticism leveled at them and their product range: "he dares not resent a harsh word lest he lose favor, his salesmen are trained to keep silent under insult ... It matters not how small or large the transaction, the buyer knows he has the advantage" (Eddy, 1912/1915, p. 190). Johnson (1913) provides us with an example of the kind of scenario that Eddy refers to in his text, and which he uses as a springboard to make the case that businesses needed to share information and market intelligence between one another. Johnson notes how the buyer, who had asked a contractor to submit an estimate for the construction of a house, then attempts to reduce the price they were liable to pay, by whatever means possible. In this illustration, Johnson refers to the blatant lying engaged in by the consumer when they stated "impossibly favorable" bids they claimed to have secured from other trades people (Johnson, 1913, p. 142; Nelson, 1923a, p. 42).

The fact that one buyer might attempt to obtain favorable terms using this method was not in itself wholly problematic. It was that sufficient buyers were engaging in this type of unscrupulous behavior that was harmful in the long-term: "It forces out of

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business every year multitudes of men whose services society cannot spare" (Johnson, 1913, p. 142). In this environment all stakeholders distrusted each other and this was compounded by "old" and "unfair competition" (Eddy, 1912/1915, pp. 25-6; Nelson, 1923b, pp. 263-4). Montague (1912) and Stevens (1914) supply a number of examples of "unfair" methods of competition that fostered the distrust Eddy wanted to alleviate (Nelson 1923a, pp. 41, 104). These range from: "Local price cutting . . . Operation of bogus 'independent' concerns . . . Rebates and preferential contracts . . . Manipulation . . . Blacklists, boycotts, white-lists . . . Espionage and use of detectives . . . Coercion, threats and intimidation" (Stevens, 1914, p. 460).

With such tactics utilized in a range of industries, it is hardly surprising that Eddy managed to diagnose a lack of trust between firms. According to Eddy, there needed to be some method to defuse the animosity. He was convinced that by bringing the members of an industry together frequently enough, that an ethos of cooperation and trust could be cultivated. As he put it, he wanted to "ally their distrust, induce them to abandon the played-out policy of secrecy, and to agree to exchange information . . . in short, to do business on a frank and straightforward basis" (Eddy, 1912/1915, p. 113). This social contact was an important way in which each could be convinced that the others were not the "rascals" they assumed them to be (Nelson, 1923a, pp. 10, 35, 63).

Open-price associations, or as they were otherwise known: "open-price systems" (Lyon and Abramson, 1936), "industrial associations" (Compton *et al.*, 1926), and "trade associations" (Jones, 1928; Whitney, 1935), subsequently came to the forefront[2] of business and popular attention in 1911, as a result of Eddy's application of his "cooperation" principles in the metal work industries, which he later outlined in his 1912 text (Lyon and Abramson, 1936; Nelson 1923a, p. 9). Although there was criticism of his calls for inter-firm cooperation, textile producers, and the large industrial manufacturers like the steel, iron and metalwork industries, quickly adopted his proposals, especially in terms of the sharing of market intelligence[3] (Tosdal, 1917; Whitney, 1935).

The remit of these associations was the collection of demand, supply and production statistics, as well as information on past industry sales, that were then available for distribution to all current members. These "market statistics" obviously had economic value for those accessing them, in the sense that the material enabled companies to manufacturer those products in high demand, and at the same time avoid selling at prices far below the present market level (Lyon and Abramson, 1936). Thus, Eddy's open price associations were "formed for the purpose of improving business conditions through the interchange of information and opinion as to prices and other factors related to the business transacted" (Tosdal, 1917, p. 332). Explaining the function of open price associations in more detail, Nelson outlines the key features of the "Eddy associations":

> 1 The promotion of publicity in the transaction of business; 2. The promotion of cordial and friendly relations among members; 3. The absence of secrecy at meetings, or in the operations of the association; 4. The non-existence of penalties of any kind in connection with operations; 5. The freedom of members to quote at all times such prices and terms as they please; 6. The collection and dissemination of statistics of importance to the industry, including prices actually quoted or charged, but excluding reference to future prices either in reports or meetings; [and] To correct by all legitimate means [. . .] all "unintelligences", faulty standardization and abuses in the trade (Nelson, 1923a, p. 19).

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In an example that hints at some the problems that open price associations did later face, Tosdal (1917, p. 352) posits:

> The open price association [. . .] endeavors to increase the profitableness of an industry by placing information as to past transactions at the command of members for consideration and analysis in individually deciding upon future prices [and this] has, therefore, potentialities both beneficial and injurious to public welfare. The cooperation of competing concerns in securing and distributing this information appears to be legal as well as economically viable. Yet the open price association is peculiarly susceptible to abuse. Whether the advantages of the new type of organization will outweigh the disadvantages in actual operation is a question to be answered when the fund of experience and reliable data is greater and more conclusive than at present.

As the above quote indicates, open price associations would not necessarily confer benefits on all stakeholders (Watkins, 1928, p. 46). Realizing this, Eddy sought to redefine the way business people, the legislative community, government and the public thought about the issue of competition. He wanted them to see that it was not in their interests to have firms engaged in the kinds of destructive competition enunciated above; such activities impeded the efficiency of the market, and failed to provide manufacturers and producers with incentives to engage in product innovation. By cooperating with each other, firms could reduce any unnecessary duplication of effort, manage levels of supply in accordance with demand, and in turn, satisfy the customer.

As I shall explicate below, attempts to manage levels of supply, and concomitantly prices, can be interpreted as legally contentious and indeed were viewed in this way by the Supreme Court. For the moment, let us concentrate on the advantages associated with inter-firm cooperation. Nelson (1923a, p. 90) lists these in terms of "the building up of the spirit of cooperation" as well as the "interchange of information" collected and collated by trade associations.

Cooperation, knowledge and decision-making

> Industry collaboration is becoming a key marketing strategy as firms recognise the possibilities of a "positive-sum game" where a degree of cooperation results in greater value creation and enlargement of the market for all participants (Egan, 2004, p. 192).

> The idea that organisations now compete as part of a wider network rather than as single entities calls for a number of new management practices, not least a change from "silo" thinking to a much more "collaborative" mode of working (Christopher *et al.*, 2002, p. 132).

In terms of destructive competition and the unscrupulous buying policies that some customers practiced, those most likely to feel pressurized by these tactics were smaller producers (Lyon and Abramson, 1936, Chapter V; Nelson, 1923a, pp. 93-4). Compared to large corporations, smaller companies were at a number of disadvantages, most notable being their limited ability to collect market intelligence that they were then able to use to inform organizational decision-making. In addition, the possession of pertinent market information was equally useful as a means to refute any potential public condemnation that they were profiteering (Eddy, 1912/1915).

Cooperation between firms, in order to improve the efficiency of all, thus represents the future of business practice for Eddy. To press his point, he exclaims that "destructive competition" has never been the "lifeblood of industry". "The history of every industry", he tells us, has always been that of cooperation between firms and

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firms and their employees. Marx would certainly respond that Eddy's view overstates the degree to which labor-capitalist relations can be described in positive terms. Nevertheless, Eddy was nothing if not an advocate for improving relations between all classes, and the encouragement of inter-firm cooperation, intra-firm cooperation and firm-consumer cooperation, was central to this undertaking.

Since I have already gestured to the fact that the public was extremely concerned about the impact of progressively larger firms on society, it is not surprising that Eddy wanted to allay any doubts that the public had regarding the trustworthiness of business people. The most prominent method available to reassure the public was by demonstrating the openness of the open price meetings, so as to undermine the argument that these meetings served as a cover for business collusion. If the public and a representative of the legal community were present at the meetings (Nelson, 1923b, p. 263; Tosdal, 1917, p. 340) – which Eddy proposed – then how would it be possible for collusion to take place? Open price association meetings were therefore meant to be absolutely transparent. Eddy even indicated that it might be worthwhile for associations to forward the agendas of the meetings, and the subsequent minutes generated, to the appropriate government department (Tosdal, 1917).

Secrecy should, consequently, be strenuously avoided: "The atmosphere of secrecy serves only as a red flag in the face of – the public" (Eddy, 1912/1915, p. 226). Associated with this, Eddy was not, as he frequently reiterated, attempting to make the case that firms should form cooperative associations in the interest of restricting prices and potential competition. On the basis of his prior experience with open-price associations, he claimed that there was very little evidence that firms did actually engage in collusion at open price meetings, or through using the information provided by these groups (Eddy, 1912/1915, p. 97; Lyon and Abramson, 1936, pp. 55-63; Nelson, 1923b, pp. 265-266). Still, in a positive twist of the work of Smith (1776/1986) and similar to Defoe (1727/1987), Eddy believed that business people needed to meet together far more frequently to discuss the changing nature of the marketplace. Only then could all members of society benefit from the efficient operation of the market (*The New York Times*, 1921). This said, these groups still needed to convince the public that their motives were honorable.

Trust

> The need for relationship marketing stems from the changing dynamics of the global marketplace and the changing requirements for competitive success. Somewhat paradoxically, to be an effective competitor in today's global marketplace requires one to be an effective cooperator in some network of organizations (Morgan and Hunt, 1994, p. 34).

Open price associations had to cultivate an image of honesty and encourage the public to trust that the activities they were engaged in were going to benefit all stakeholders, and not just the firms themselves. The public had, as Eddy (1912/1915, p. 55) appreciated, on occasion been "fleeced", so that their suspicion of big business was perfectly reasonable (Cohen, 1919; Eddy, 1912/1915; Frederick, 1930; Jones, 1919). As a means of facilitating non-zero sum outcomes between industry and consumers, Eddy stressed that increased legislation was preventing businesses coordinating their activities (for example, sharing the costs of research and development, improving distribution, etc.), which they wanted to do in order to save costs[4] (Talbert, 1912; Sullivan, 1924; *The New York Times*, 1925b, 1926; White, 1928).

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Although Eddy focused on cost savings that were undoubtedly appealing to consumers due to increases in the cost of living (Nelson, 1923a), his open price system was primarily intended to make operational efficiency an achievable goal for all those willing to commit to his principles. Summarizing the role of the open price association, Tosdal writes: "Open price associations … aim strictly to provide the machinery for the collection and dissemination of the desired knowledge concerning market conditions. They may be described as associations of competitors formed for the purpose of improving business conditions through the interchange of information and opinion as to prices and other factors related to the business transacted" (Tosdal, 1917, p. 332).

This change of business affairs from conflict to cooperation did not happen immediately. Tadajewski (forthcoming) documents the fact that even with access to an array of marketplace information courtesy of trade associations, many members were reluctant to act upon this intelligence (Lyon and Abramson, 1936, p. 63). What is interesting is that Eddy (1912/1915, p. 156) attributes the lack of engagement with his proposals to generational issues, when he declares that "It is hard to get it [cooperation] into the head of the man over sixty, [and] almost impossible if he is over fifty."

Cleverly, Eddy devotes his energies to convert the younger generation who represented potential acolytes for his dictum: "cooperation not competition." He calls for them to question their inherited beliefs about business:

> Don't do in all things as your fathers have done; *go forward*; profit by their mistakes; follow better and finer ideals; and begin by revising practically every maxim that has heretofore prevailed in business or in industry with which you are connected (Eddy, 1912/1915, p. 156; emphases in original).

One mistake that must be avoided was assuming that managerial intuition, or speculation without adequate information about marketplace conditions, was appropriate for the turbulent conditions of the twentieth century (Dennison, 1925). This is because the growth of industry required equally large production facilities and to maintain operational efficiency, managers were tasked with seeking out new markets – markets that were possibly radically different in terms of the kinds of products and services demanded. As a result, market research assumed a central place in strategic decision-making, in an effort to avoid costly, possibly bankruptcy inducing, production errors[5] (Carpenter, 1919; Laidler, 1930). Indeed, Eddy pointedly remarked that the "best kind" of cooperation "*takes in the consumer* … wherein the man who buys has just as much to say about both goods and prices as the man who sells; no other form of cooperation is destined to survive" (Eddy, 1912/1915, p. 55).

Market research and cost accounting

From his examination of business practices, Eddy was concerned that it was very difficult to determine effective industry benchmarks, when each firm was using incommensurable methods of performance evaluation (Nelson, 1923a, p. 24). The major task of the open price system, he reflected, was the development of a means to enable "intelligent cooperation". Logically, as "the first steps of the new economy", Eddy (1912/1915, p. 229) called for "ways and means for ascertaining [the] costs of labor and goods." When these were established, it would be possible for business people "to

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know their costs and make their prices accordingly" (Eddy, 1912/1915, p. 229; Jones, 1925, p. 396).

Such tools allow production and sales decisions to be placed on:

> [. . .] a more scientific and rational footing. Instead of competing under conditions of jealous distrust and suspicion, wasting time and money in doing things that they should not do at all, or should do with a fraction of the expenditure, members [of open price associations] will cooperate to accomplish as a unit the things they may rightfully do [. . .] the open price policy – the new competition, with the friendly associations it involves, tends to make business life [. . .] worth living (Eddy, 1912/1915, p. 150; Nelson, 1923a, p. 13).

Cost accounting, for instance, permitted each member of the business community to compare their own costs, prices and profits. This process is largely consistent with discussions of "benchmarking" (Berk and Schneiberg, 2005).

But Eddy went further than this; he declared it was in the interest of the large manufacturer to aid those currently under-performing. Providing advice to those companies without extensive business experience, or lacking appropriate research facilities, was supposed to foster the relations that Eddy deemed essential to industrial efficiency. It could, he hoped, ameliorate any residual distrust between competitors. Recalling conversations that he says he had overheard a number of times:

> The writer often hears the representatives of large corporations say: "What have we got to gain by teaching the little fellow how to run his business?" More than one thinks; first of all the friendship of the little fellow instead of his enmity; secondly, the friendship of the little fellow's friends, and he has alot of them; thirdly, more intelligent competition and that means dollars and cents (Eddy, 1912/1915, p. 161).

Whilst Hamerschlag (1919) bemoaned the fact that most industrial enterprises continued to devote an excessive amount of attention to production, to the detriment of industrial research (Jones, 1919, p. 164; Lyon, 1927, p. 284; *The New York Times*, 1921, 1922a, b, 1935; Weld, 1923, p. 185), his contemporaries paid tribute to the growth of interest in research, especially cooperative research activities (e.g. the building of laboratories to be used by a group of firms). It was not only industry that appreciated the importance of market research; these activities garnered university support and government funding (Cooke, 1919; Hamerschlag, 1919; Jones, 1919). In much the same way, Jones (1919, p. 318) contrasted the paucity of marketplace intelligence available to most business people a quarter of a century previously, with "the present abundance". Johnson considers the value of market research in terms of enabling manufacturers to adapt to marketplace trends, allowing them to take advantage of "a rising market" or to ensure that they have made "proper preparations for a period of depression" (Johnson, 1913, p. 143).

All of this intelligence provided manufacturers with the opportunity to base their production schedules more effectively on the demands of the market, taking into account potential future changes in demand and supply. The increasingly close relationships between members of open price associations nevertheless raised the specter of collusion that Adam Smith alluded to years earlier. This, in turn, led to legal and government interest, and the possibility that the stabilization of prices, really signified the restriction of trade, and thereby violated the Sherman Act.

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Collusion

Market intelligence, cost accounting and the social gatherings characteristic of the "Eddy" associations were certainly useful in avoiding "destructive competition". But the temptation to talk, not only about past and present prices, but also to speculate on the direction of the market in the future and how individual manufacturers could respond, was difficult to resist for some (Nelson, 1923a, p. 65). Such armchair theorizing put these informal gatherings and the association(s) with which they were related, on problematic legal ground (Lyon and Abramson, 1936, p. 66).A widely reported example of legal transgression (*United States* v. *U.S. Steel Corporation*) related to the "Gary Dinners" (Frederick, 1930, p. 97). These were a series of informal dinner meetings at which influential members of the steel industry conversed about business conditions (Nelson, 1923a, p. 33; Montague, 1928, p. 665; *The New York Times*, 1935). Freedom of speech, as the Judge that reviewed this case in 1915 explained, was obviously central to the American constitution. But freedom of speech related to the freedom of the individual, not "associations of individuals" (Tosdal, 1917, p. 350, note 55; Lyon and Abramson, 1936, p. 12, note 1). What was questionable here was how a Court could effectively differentiate when informal discussions resulted in collusive behavior, and when prices naturally met at a specific level. As Buffington (in Tosdal, 1917, p. 350, note 55) concluded:

> [...] an individual is permitted to do some things that are denied to an association of individuals, and where, at a meeting of many persons, such action is taken whose legality is afterwards called into question, the decision may be vitally affected by ascertaining the fact whether such action was really taken for each individual acting for himself, or whether those present were in fact pursuing a common object [...] The final test, we think is the object and effect of the arrangement, and both the object and effect were to maintain prices, at least to a considerable degree.

In a variety of later cases, the informal discussions of past and present pricing policy, did lead to consensual price agreements. According to Tosdal (1917), we should not confuse such illegal activities with those of open price associations more generally. Among the cases that the court ruled against during the 1920s and 1930s, included those of the "hardwood lumber, linseed oil, and cement" associations (Berk, 1996, p. 39; Brand, 1936b, p. 372; Jones, 1925, 1928, p. 36; Nelson, 1923a, pp. 23, 143 and 144, 1923b, pp. 260, 270).

The criticism of open price associations did, however, gradually subside for a time. Their role in directing production and distribution decisions during the World War I was highly praised (Fickle, 1980), with the US Government preferring "to deal with associations of manufacturers rather than with individuals" (Nelson, 1923a, p. 11, 98, 173). Soon after the armistice, open price and trade associations were again in the spotlight, as a result of the case of the Hardwood Manufacturers Association (1921). This group was convicted of acting in such a way, as to restrain trade by controlling production, in order to increase prices (Lyon and Abramson, 1936).

Similar arguments were made in the Linseed Oil case two years later. The fact that neither the government in the form of the Federal Trade Commission, nor the courts were particularly helpful in aiding members of the business community to determine to what extent they could actually cooperate with one another (Alderson and Halbert, 1968; Butler, 1919; Copeland, 1932; Montague, 1928; Nelson, 1923a; Seager, 1912; *The New York Times*, 1921, 1922c, 1935), and where such inter-firm relations transgressed

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the bounds of legal probity, left many unsure about how to proceed. Lyon and Abramson (1936, p. 17) frame the difficulties faced by practitioners in the following terms:

> As a result of these two decisions [in the Hardwood and Linseed cases], the opinion gained currency among lawyers, as well as among business men, that the mere collection and dissemination of statistical information had been declared unlawful. This view was furthered when the Attorney General, in correspondence with the Secretary of Commerce [. . .] took the position that the dissemination of trade statistics by trade associations, except through the medium of some governmental body, was in effect illegal.

By 1925, the Supreme Court did offer some degree of clarification regarding the legality of the collection and dissemination of market statistics, as did the antitrust division of the government "through its trade practice conferences" (Hawley, 1974, p. 136; Compton *et al.*, 1926; Jones, 1928). Collecting or collating market and cost information was no longer considered an immediate violation of the Sherman Act (Brand, 1936b; Jones, 1928). In determining illegality, the courts focused on the "intent" of any discussion (Nystrom, 1936; Montague, 1928), paying close attention to how the information was ultimately utilized:

> Information exchanges were deemed lawful as long as they were not used to reach "any agreement or any concerted action with respect to prices or production or restraining competition" [. . .] They might even be beneficial, conceded the Court, the Department of Justice, and some economists. Should collective information help individual firms calculate price and quantity decisions more effectively and so better clear markets, then open price associations were good (Berk, 1996, p. 392).

Until this point, business people had turned away from open price and trade associations, as a result of the legal ambiguity surrounding data collection and close inter-firm relationships, as per the Gary Dinners example. This said, the support by government, especially the Department of Commerce and Herbert Hoover, were central in rehabilitating the role of open price and trade associations (Cabot, 1925; Compton *et al.*, 1926; Dennison, 1925; Frederick, 1930; Hawley, 1988; Lyon and Abramson, 1936; Nourse, 1936; *The New York Times*, 1922b, 1925a).

Moreover, we can connect the rehabilitation of these associations to the economic climate and the demands for more effective collection and use of market information in relation to marketing and distribution (Klein, 1929; Laidler, 1930), especially in the lead up to and during the Great Depression (Javits, 1930). Commensurate with this, the National Recovery Act offered "respite from the antitrust laws", and with the relaxation of these "it was but natural that business groups would bring forward many proposals for group controls over prices and production which would have been questionable under the anti-trust laws" (Lyon and Abramson, 1936, p. 23; Macintosh, 1999, p. 144).

This, it can be argued, is the historical point when discussions of organizations adapting their manufacturing and distribution policies in order to satisfy the customer – not only the manufacturer – began to spread relatively quickly throughout the marketing literature and industrial practice. I have already referred to the fact that Eddy (1912/1915) wanted to encourage the public to trust business people and have faith in their ability to act ethically in their day-to-day marketplace activities. One way to convince the government that practitioners were working to the advantage of all

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stakeholders was for business to communicate their desire to do this through all the available channels (Alexander, 1912). As a result, the 1920s witnessed the growing invocation of the idea that the customer should be the "idol" of the business community (Bristol, 1932; Weaver, 1935; White, 1927). In the interest of forestalling further government regulation, the "Former Assistant to the Attorney General of the United States," asked that business recall that:

> Regulation grows out of necessity, and necessity arises when the managers of the enterprise fail to discharge their full responsibilities to the public. Consequently, if further governmental regulation is to be avoided, our industrial leaders must assume full responsibility, to the end that our great industrial institutions shall be the servants and not the masters of the public (Donovan, 1930, p. 148; Capper, 1920).

With this comment in mind, the explosion of interest in situating the consumer as central to all organizational activities takes on a slightly different hue. If Macintosh (1999, p. 148) is correct in that "regulation … creates a demand for normative … theories," to what extent does the opinion expressed by White (1927, p. 307) that "The customer is again on the way to being the center and loadstone of the producing process" and "In many cases it is desirable to "lean over backwards" in satisfying the customer's demands", fulfill this normative function (White, 1927, pp. 242 and 243; Nelson, 1923a, p. 102)?

Whatever our response, White's proposal was repeated by various interest groups, including the banking community (Tadajewski, n.d.), but most notably by marketing scholars themselves. Borch (1958) and McKitterick (1957) indicate that this customer centric view was prominent in the business press, especially in the *Harvard Business Review* and the *Journal of Marketing* throughout the 1920s and 1930s. As we now know, these ideas were taken up and repackaged by Keith (1960) (Fullerton, 1988; Hollander, 1986b; Jones and Richardson, 2007; Tadajewski and Jones, 2008; Tadajewski, n.d.) and remain prominent in marketing theory and practice today. But as Stan Hollander reminded us, these ideas have a far more complex history than is generally assumed; as, I would add, does relationship marketing.

Conclusion

Previously Rindfleisch and Moorman (2003, p. 421) have registered that "Concerns about the possible anticompetitive effect of inter-firm cooperation have been voiced for well over a century." They go on to assert that inter-firm coordination and cooperation is a key theme in the relationship marketing literature (Aijo, 1996; Ballantyne *et al.*, 2003; Berry, 1983, 1995; Brown, 1998; Christopher *et al.*, 2002; Egan, 2004; Rindfleisch and Moorman, 2003; Tadajewski, 2008). Accepting this, if relationship marketing is about developing and cultivating relationships with those who enable an organization to meet its desired objectives, then Eddy outlines some of the earliest arguments in support of a relational orientation (Keep *et al.*, 1998; Tadajewski, 2008). Eddy's proposals with regard to cooperation, rather than destructive competition, were furthermore later echoed by marketing scholars throughout the period between 1920 and 1970 (Savitt, 1990; Tadajewski, 2009).

In equal measure, some of the earliest marketing commentators who enunciated a customer orientation appear to have outlined a belief system that seems very aware of the fact that legal and government regulation was hanging over the heads of practitioners at that juncture. By positioning the consumer as central to marketing

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discourse during the 1930s, the restrictive government regulation that limited business practice periodically was thereby avoided, at least until the next round of legal scrutiny by the Department of Justice (Alderson and Halbert, 1968).

I can appreciate, however, that some readers may quibble with my interpretation of relationship marketing. Relationship marketing, so we are told in the literature, is about "win-win" relations; all parties should benefit from entering into such associations. This may be a theoretical claim that underpins relationship marketing discourse, although I should add that there is increasingly greater attention paid to dysfunctional relationships, and the power inequalities that exist between parties. Eddy's work, if anything, signals his intellectual foresight. He noted the power relations between different groups, but still held out hope for productive relations between members of the business community. He was concerned to avoid collusion and market control, and understood the legal implications of the close relations formed by virtue of his open price associations.

Relationship marketing scholars are likewise devoting much more attention to the possible negative implications of close relations. In what seems like an echo from the distant past, Palmer (2001, p. 761; emphasis in original) writes: "*Co-operative relationships between organisations may create added value for the partners involved, but they can also pose a threat to the competitiveness of markets*." These could have been comments made about the Eddy system nearly a century ago. As Hollander (1995, p. 99) suggested in his intellectual biography, perhaps we should be less quick to affirm the intellectual radicalism of new paradigms or schools of thought, and occasionally "recognize older and earlier voices." I very much agree.

Notes

1. Eddy is also the author of a title called *The Law of Combinations* published in 1901, but I have not been able to access a copy. The reference to this book is Nelson (1923a, p. 39, note 30). There are also a variety of art reference works written by Eddy, but these were not relevant to the present paper. See Eddy (1912/1915) for a list of his publications.
2. It should be noted that Lyon and Abramson (1936, p. 3) assert that discussions of "open prices", "open price filing", "open price plans", "open price associations" as well as "open price systems" "have been current in American business life for the past thirty years." Thus, the emergence of this approach appears to be circa 1906, or roughly when Eddy (1908a) was writing *Ganton & Co*. Brand (1936a, p. 552) seems to agree with this in principle, but notes that there were precursors to the open price associations by discussing the "active trade associations" operating "since 1883" that subsequently united to form the "National Fertilizer Association … in 1925." White and Hayward (1924, p. 424) take our historical account back even further when they posited that "The American Iron and Steel Institute has been collecting statistics since 1844" (*The New York Times*, 1935). Specifically in reference to Eddy, Lyon and Abramson (1936, p. 11) did say that "Though there is some evidence of an earlier beginning, A.J. Eddy, a Chicago Lawyer, is chiefly credited with having originated and developed the first open price systems in the United States." For this evidence see Nelson (1923a, pp. 26 and 27).
3. In a discussion reminiscent of the marketing concept, Borden describes "trade associations which have a merchandising point of view." As an example he discusses the "Portland Cement Association [which] … has devoted considerable research to insure its satisfactoriness for various purposes to which it is devoted. The Association has sought to make its findings known among contractors, architects, and builders. By studying the needs and wants of consumers, it has adapted products to meet those needs; hence it has a

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sound basis for carrying forward ... promotional work" (Borden, 1932, p. 486; Lyon, 1927, p. 284; Lyon and Abramson, 1936, p. 7). Along with promotional work, trade associations such as the National Automobile Chamber of Commerce, licensed patents, conducted "economic research", examined "commercial problems" and advised government (Reeves, 1924, p. 264). Reeves (1924, p. 266) stresses that the trade association conducted those activities for which individual firms lacked the finances and expertise: "In so doing, it pools the intelligence of the leaders in the business and through the efficiency of this method of operation, reduces the overhead cost to society."

4. Rhetoric about lowering costs was useful in improving the reputation of business practice due to public sentiment attributing "increased costs of producing food and raw materials" to producers who "have grouped and combined, always with the apparent result of raising prices and costs of living" (Talbert, 1912, p. 223).
5. Internal market research, as well the collection of intelligence by external bodies, was further stimulated by the anti-trust legislation that affected inter-firm cooperation. The Sherman Act, notably, deterred some firms from pursuing the kind of cooperation lauded by Eddy for fear that it would appear to government and legal enforcement groups that they were trying to engage in price collusion and thereby restrain trade. Thus, Frederick makes the point that anti-trust legislation directed attention toward "*research* ... The anti-trust laws tending to foster competition and prevent monopoly ... [so that industry] turned increasingly toward science and research to provide a *natural* or technical monopoly (of patents, ideas, or methods)" (Frederick, 1930, p. 100; Jolink, 2006). Frederick refers to the sharing of patents between "the Parker Pen Company and the W.A. Shaeffer Pen Company", as well as to various forms of licensing agreements (Frederick, 1930, p. 99; *The New York Times*, 1924).

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