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Giving voice to marketing's intellectual heritage

Dixon's view of marketing as value creation

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Abstract

Purpose – The purpose of this paper is to demonstrate Donald F. Dixon's contribution to scholarship in clarifying two parallel streams of thought on marketing's role in value creation: value in use and value in exchange.

Design/methodology/approach – The paper presents a literary analysis of some of Dixon's work that is often overlooked, and a discussion of its relevance to the services, channels and marketing strategy literature.

Findings – Dixon's distinction between the two streams of thought ("value in use" and "value in exchange") clarifies an important aspect of marketing's intellectual heritage that has eluded the literature on services marketing, channels and marketing strategy. The consequences of this oversight are considerable.

Originality/value – The paper focuses on an aspect of Dixon's work that is underappreciated and not widely understood.

Keywords Marketing theory, History, Services marketing, Product differentiation, Market segmentation

Paper type Research paper

> By this it appears how necessary it is for any man that aspires to true knowledge, to examine the definitions of former authors; and either to correct them, where they are negligently set down, or to make them himself. For the errors of definitions multiply themselves according as the reckoning proceeds, and lead men into absurdities, which at last they see, but cannot avoid, without reckoning anew from the beginning (Hobbes, 1651, p. 13).

> It is heartbreaking to imagine the progress which could have been made if [...] early [marketing] writers had developed further, rather than redeveloped, concepts which already existed (Dixon, 1982, p. 150).

Introduction

Much of the confusion in contemporary marketing thought has arisen from our neglect of an intellectual heritage that provides definitional integrity and contextual relevance across the ages. Donald F. Dixon has provided a voice to the tradition of scholarship that precedes him several thousand years, reminding us that we as scholars need to understand the past before developing theoretical frameworks that create a legacy for the future. In this vein, Dixon's works reveal a commitment to research and document what had been written about value creation, exchange and the institutions that

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support these activities, carefully articulating the differences and similarities in terms and contexts applied across the centuries. Equally important, Dixon uses his signature grasp of marketing's intellectual heritage to expose conceptual flaws in the mainstream literature and propose an approach to conceptualizing and analyzing marketing problems that is consistent with marketing's intellectual heritage.

The purpose of this paper is to demonstrate Dixon's contribution to scholarship in clarifying two parallel streams of thought on marketing's role in value creation:

(1) value in use; and

(2) value in exchange.

Dixon's (1990) *Journal of the Academy of Marketing Science* article titled "Marketing as production: the development of a concept" is the most fully realized articulation of these streams, and serves as the starting point for our discussion. Then, the significance of this clarification is discussed in the context of services marketing and channels theory. Finally, we discuss one of Dixon's (1985) lesser known articles, "The segmentation concept revisited" to demonstrate the usefulness of his historical approach in resolving the ongoing debate over the meaning of fundamental marketing concepts: product differentiation and segmentation.

Revealing a dormant logic in marketing thought

At the heart of Dixon's (1990) *JAMS* article is the distinction between two philosophies of value creation: "value in use" and "value in exchange." These philosophies give rise to streams of thought that flow through what we commonly view as the "schools of thought" that unfolded over the centuries. Although their underlying philosophies appear to be different, the two streams are complementary in a manner analogous to that of schools of thought (see Shaw and Jones, 2005, for a discussion of the latter).

The "value in use" stream, extending back to Aristotle's (1959) *Politics* (fourth century, BC), views all productive activity holistically in terms of its ultimate impact on the consumption experience. According to this view, marketing makes two contributions to our well-being. First, marketing adds value by virtue of the net gain from exchange, in a manner consistent with Alderson's "potency of assortments" argument – that is, value (or utility) is reflected in the degree to which assortments are enhanced as a result of the exchange process. For example, in describing Menger's (1871) theory of exchange, Dixon (1990, p. 339) writes that the parties to a transaction adjust "their assortments of goods by exchange [. . .] thereby increasing their joint utility." Thus, the exchange relationship is one of mutuality; it is impossible to understand one party's actions apart from the other's.

A second benefit recognized by the value in use approach is that marketing advances the opportunity for specialization in the assortment creation process. For example, by outsourcing marketing activities to merchants, farmers (Condillac, 1776) and manufacturers (Say, 1803) better align resource assortments with their respective capabilities. Moreover, specialization in merchant exchanges develops. Jevons' (1871) explanation for the variety of paper assortments sold in his day demonstrates that marketing effort "results in exchange being more perfectly adjusted" to the capabilities of sellers and requirements of buyers (Dixon, 1990, p. 339). In this mutual relationship, "exchange is [. . .] a source of wealth" (Condillac, 1776, p. 50).

On the other hand, the "value in exchange" stream, which Dixon traces back to Smith (1776), treats value as an intrinsic quality of the goods exchanged rather than "the use

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made of them" (Dixon, 1990, p. 340). Exchange therefore adds value by adding properties to goods. Scholars using this approach recognized, like their value in use counterparts, that marketing advances specialization; however, the emphasis shifts to the impact of specialization on the value of tangible goods. For example, goods may attain properties such as better location or temporal availability. Dixon (1990) makes it clear that the value in exchange interpretation yielded a rich stream of marketing thought. However, it also creates a logical problem for marketing because if value is an inherent property of tangible goods, then it is not possible to explain how marketing creates value when tangible goods are not involved.

Dixon concludes that mainstream marketing thought has largely ignored the "value in use" literature – including Alderson himself (Dixon, 1990, p. 342), a noted advocate of the concept. When he called for a "marketing interpretation of the whole process of creating utility," Alderson (1957, p. 69) essentially was responding to the dominance of an "exchange value" philosophy. However, Dixon's (1990) analysis makes it clear that an appropriate concept of marketing had been established by the turn of the twentieth century. This concept would go essentially unnoticed by the mainstream literature until early in the twenty-first century (Vargo and Lusch, 2004).

Neglect of the use value stream

An unintended result of neglecting the value in use stream of thought in favor of the exchange value stream is that marketing was widely seen as an adjunct to production. For example, the "four utilities" framework, where marketing is responsible for "time/place/possession" utilities and manufacturing responsible for "form" utility, is a pervasive element of marketing textbooks (Perreault and McCarthy, 2008; Kerin *et al.*, 2010). The framework is emblematic of what Alderson (1965, p. 27) termed the "conventional view" that "marketing is the process that adds properties to matter" (Dixon, 1990, p. 342). However, if this was true then "marketing cannot contribute to the production of 'immaterial' goods," (p. 342) or services. The emergence of a services marketing literature therefore reflects "dissatisfaction" with the conventional view.

Dixon does not elaborate here, but the implications are clear: the services marketing approach mirrors that of the conventional view it rejects, because the new focus shifts to marketing's contribution to "immaterial goods." Ironically, the new approach is every bit as "conventional" as the one it rejects because marketing is viewed as an adjunct process in the creation of value – the difference now is that the marketing process adds properties to the intangible. Both approaches are invalid because "there is only one kind of utility – namely the value which a product contributes to the potency of an assortment [. . .] All economic activities create a single form of utility" (Alderson, 1957, p. 198). Furthermore, the term "producer" can be used to describe middlemen as well as service providers, rendering moot the distinction between marketing, production and services. The fallacy in attempting to make this distinction was also addressed in an earlier work that concluded "[. . .] any distinction between 'goods' and 'services' seems to be irrelevant from the customer's perspective" (Dixon and Smith, 1983, p. 81; Dixon, 1984).

Neglect of the exchange value stream

While the value in exchange philosophy has long-dominated marketing thought, Dixon argues that much of the literature comprising the exchange value stream has been ignored. Tracing the historical origins of the channels concept, Dixon (1982) discusses

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a rich intellectual heritage on marketing channels that identifies the value creation roles of third parties, producers and consumers, as well as the functions that they perform. However, much of the twentieth century work was repetitive; marketing scholars often were reinventing the wheel, and consequently much time and effort had been wasted that could have been applied to developing and extending what was known. Dixon noted that in many cases, many early twentieth century writers like Shaw (1915) ignored marketing's intellectual heritage and, at our peril, developed "[. . .] ideas which already existed in the literature." (Dixon, 1982, p. 150). This is also reflected in relatively recent discussions on whether middlemen add too many costs to the channel process (Shaw, 1990). A casual reading of our rich heritage on this topic would provide insight into the many years of intellectual discourse that address this issue and expose the absurdity of a modern, historically disconnected reincarnation of debate.

Making sense of product differentiation and segmentation

The recent controversy and confusion surrounding the concepts of "product differentiation" and "market segmentation" (Smith, 1956; Simon, 1982; Dickson and Ginter, 1987; Borna, 1990; Sharpe and Dawes, 2000) provide another opportunity for appreciating Dixon's application of our intellectual heritage. His 1985 article, "The segmentation concept revisited," tackles the problem of defining and integrating the terms "differentiation" and "segmentation," which together formed the nucleus of the "contemporary marketing paradigm" (Dixon and Wilkinson, 1985). As pointed out elsewhere, a conceptual framework that clarifies their meaning is needed because it is "important for both managers and academics to have a common, accepted understanding of the theoretical and applied meaning of these concepts" (Dickson and Ginter, 1987, p. 9), yet the terms are confused in contemporary marketing literature (p. 1).

Like other authors tackling this problem (Simon, 1982; Dickson and Ginter, 1987; Borna, 1990), Dixon identifies inconsistencies in use of the terms over time and the conceptual problems they created. However, his approach to clarifying terminology is unique because he uses a conceptual framework rooted in the value in use heritage, rather than a specialized methodology such as preference mapping (Dickson and Ginter,1987).

Dixon hints at his framework, in fact, by opening the paper with Alderson's (1957) conception of marketing as a process of matching opportunity with effort. "To Alderson, opportunity means 'demand for the particular products or services that the individual firm is prepared to provide,'" and effort "involves the activities sometimes designated as the 'marketing mix'" (p. 173). Later in the article, Dixon explains the implications of this concept (p. 179): if two things are to be matched, they must be considered together. Matching requires that the two things have some common characteristics, and these common characteristics can be identified only by examining both simultaneously. Alderson recognized that the matching process is iterative, so that "there is an element of circularity" involved. And there is no escape from this circularity, since the essential problem is precisely that of finding the optimum level, after taking account of all factors affecting both opportunity and effort (Alderson, 1957, p. 352).

Dixon (1985, p. 179) notes that "matching of effort and opportunity, in the context of the firm's capabilities, is implicit in microeconomics." Moreover, matching is not just

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an analytical exercise, but a joint activity carried out by sellers and buyers. "Marketing management involves a process of mutual adjustment" between supply and demand (p. 180).

Dixon clearly is alluding to a "value in use" framework for marketing theory. The "common characteristics" are understood in terms of assortments, as identified by Alderson and associated by Dixon with a value in use approach. From the supply side, the assortment is viewed in terms of benefits, constituting a "problem solving service" (Kotler, 1984, p. 463); from the demand side, the assortment is viewed in terms of requirements which are unique to each individual (Dixon, 1985, p. 173). Moreover, the notion of "mutual adjustment" means that the firm's "product has no meaning apart from a specific set of customers who have a particular set of requirements which determine the relevant benefits" (p. 179). Therefore, the firm's contribution is determined in conjunction with customer receptivity to its output, and the relationship between market actors is characterized by mutuality. Here, we can see that Dixon's (1990) elaboration on use value provides insight to his 1985 analysis.

From a value in use standpoint, marketing strategy:

> [. . .] must begin with the question of what the firm can offer that will satisfy customer requirements better than the offerings of other sellers. Since demand is heterogeneous, any firm's offering must be relevant to a subset of the total market (Dixon, 1985, p. 180).

Dixon (1985, p. 180) suggests the analog of referring to the total market as "genus" demand, and the subset the firm chooses to serve as "species" demand. Thus, the first step of marketing strategy is reflected in how the firm adjusts to the genus market, and therefore reflects a "bending of supply to the will of demand."

As Dixon clearly points out, this is the concept of product differentiation that Chamberlin (1933) originally proposed. Consistent with the value in use approach, differentiation may take material and intangible forms – Chamberlin made no distinctions between production, services and marketing and approached utility creation as incorporating all value enhancing activities involved in adapting to demand. Furthermore, because demand is defined in terms of the firm's capabilities, the differentiation concept is tied to the creation of competitive advantage, which is consistent with Alderson's (1957, 1965) functionalist perspective and more recent conceptions of the term (Sharpe and Dawes, 2000).

Product differentiation is just the starting point for marketing strategy, however, because it is subject to diminishing returns. Gaps in the match between the seller's offering and species demand result because the firm cannot serve every customer (each representing a unique assortment of requirements) equally well. The next problem for marketing strategy therefore centers on overcoming these gaps. Dixon specifies two alternatives. The first is Chamberlin's (1933) concept of "selling costs" – referred to elsewhere as "demand function modification" (Dickson and Ginter, 1987) – which essentially is tantamount to "bending the will of demand to that of supply." The second alternative is market segmentation, which involves creating a new offering for a subset of the firm's market. Dixon's synthesis of works by Robinson (1933) through Preston (1970) reveals segmentation to be a process of subdividing the firm's market (species demand), rather than the total market (genus demand). Like the selling costs approach, segmentation preserves the original match created through differentiation; however, it overcomes the gap via bending supply to the will to a subdivision of

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species demand. In contrast with the selling cost approach, segmentation increases the number of assortments that the firm offers, and therefore has different resource implications.

The contribution of intellectual heritage

We can most appreciate Dixon's efforts to link heritage to modern conceptions of differentiation and segmentation by comparing it to other, less successful attempts. First is Smith's (1956) "Product differentiation and market segmentation as alternative marketing strategies," generally considered a "classic" of marketing literature (Ennis and Cox, 1981), and discussed at length in Dixon's (1985, pp. 182-3) article. Suffice to say that Smith did not recognize or attempt to integrate correctly the works of the authors who coined the very terms he claimed to clarify with his own effort. Specifically, Smith referred to the original notion of product differentiation as "segmentation," and selling costs as "product differentiation." Moreover, there was no place for the original concept of segmentation in this atomist framework. Again, Hobbes' warning that "the errors of definitions multiply themselves according as the reckoning proceeds, and lead men into absurdities" is reflected in this framework.

Dickson and Ginter's (1987) "Market segmentation, product differentiation, and marketing strategy" acknowledges the work of Chamberlin (1933) and, as a result, disavows Smith's analysis. However, the authors overlook the body of work on segmentation (Robinson, 1933; Dean, 1951; Preston, 1970) that Dixon synthesized in his 1985 article. The segmentation literature that they do acknowledge leads them toward defining segmentation "as a way of *viewing* the market rather than [...] as a management strategy" (Dickson and Ginter's, 1987, p. 3). Therefore, the authors are essentially starting from scratch in pursuing their goal of "precisely defining and contrasting market segmentation, product differentiation, and demand function modification" (p. 2).

Dickson and Ginter's new, integrative framework centers on preference maps, portraying market offerings and market segments as points in perceptual space. Implications for marketing strategy follow from evaluating an offering's current location on the map with respect to market segments and then devising ways to move offerings closer to segments, or vice versa. One problem with this approach is that it requires terminology that distinguishes between a given position on the map and actions taken to change the position. For example, "product differentiation" refers to an offer's position on the map; a "product differentiation strategy" reflects effort to change it (1987, p. 4). "Market segmentation" refers to customers' position on the map; "segment development strategy" refers to attempts to change it. However, when the firm chooses not to acknowledge heterogeneity (i.e. there is no "segmentation" as they define it), a repositioning of all customers is needed, and this is referred to as "demand function modification" (p. 4). Furthermore, product differentiation strategy may be directed either at a particular market segment, or instead at the total market, yielding two distinct forms of differentiation strategy. The net effect is that the authors "like many others, not only failed to clear up the confusion, but they also compounded it with new definitions" (Borna, 1990).

Furthermore, the absence of a complete link to marketing's intellectual heritage creates at least two critical problems. First, defining segmentation as a seller's view of heterogeneity in the total (genus) market, rather than effort to satisfy species demand, is at odds with the work of scholars (Robinson, 1933; Dean, 1951; Preston, 1970) who

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were using a historically consistent framework to begin with. Second, the link between differentiation and the firm's capabilities, central to most definitions of strategy and implicit in the value in use framework, is lost. In fact, the notion of capabilities appears in the 1987 article just once, and it is in the context of "demand modification:" "a firm may attempt to influence the importance customers associate with a product attribute on which it has a competitive advantage" (Dickson and Ginter, 1987, p. 5). Later in the article, the term "competitive advantage" is mentioned in the context of differentiation, but here it refers to an outcome of differentiation – high market share (p. 6) – rather than the firm's capabilities.

Conclusion

Modern discussions of services marketing and key marketing strategy concepts have initiated many intense exchanges among some of the most respected researchers in modern marketing thought. That these authors did not reference the work of early scholars effectively disconnects current discussion from similar dialogues in the past. This is possibly a consequence of our emphasis on twentieth century scholarship and our research focus on specialization. From time to time, it is important for a scholar like Dixon to remind us that we need to broaden our frontiers and search for the heritage that lies beyond the prism of specialization, one that gives credence to our understanding of marketing phenomena.

Dixon is a pioneer in the research, development and integration of marketing thought across time and disciplines. In a small sampling of his work shown here, we see the consequences of ignoring our intellectual heritage as reflected in conceptual incongruities between our past and present. Dixon is ever mindful of the need to give a voice to history to preserve and, more importantly, build on our rich intellectual heritage.

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