MARKETING CONCERNS OF A DEVELOPING ECONOMY*

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IT is a pleasure to speak to you tonight on some 'Marketing Concerns of a Developing Economy'. Before beginning, I wish to thank the Malta Chamber of Commerce, the Economic Society of Malta, and the Royal University of Malta for inviting me, and the United States Information Service for facilitating my visit.

I accepted the invitation to speak on marketing and economic development with some hesitation, for I feared being cast an 'instant expert' with respect to Maltese economic prospects and planning. Let me dispel any illusions that I stand before you prepared to indicate specifically the role of the various sectors of the economy or the precise manner in which marketing can best serve the interest of the total Maltese Society. The issues are far too complex and my contact with Malta far too limited to enable me to make any comments of a specific policy nature. Rather I intend my comments to provide a useful framework for considering economic development and the role of marketing – and thereby hopefully provide implications for Maltese economic planning. I invite your questions, for of necessity I am leaving much unsaid.

To begin, let us establish some perspective for viewing economic development and marketing. The major *economic* goals of any contemporary economy – developing or developed – would appear to include the following five:

1. Efficiency in the use of the society's scarce resources;
2. Adequate amount and rate of technological change;
3. Full employment;
4. Price stability;
5. An equitable income distribution.

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Reasonable men may disagree strongly as to how best to attain these goals. Some may argue for a more competitive system complete with reduction of legal or other barriers to entry into the country's markets. Others may hold that a more centrally planned if not controlled economy is the more efficient and effective approach to their achievement. And of course coupled with either position are the questions of the role of fiscal and monetary policies, the appropriate valuation of the country's currency, the usefulness of establishing long-term trading relationships or joining economic blocs, the role of multinational enterprises as sources of efficiency and technical change, and so on and so forth.

My comments abstract from either the 'competitive' or 'centralized' arguments and essentially complement the various policy questions I have just raised. My major thrust is *how best to think about marketing for economic development* – within either a competitive or centralized framework. Let us define Marketing:

> Marketing is the procedures by which the appropriate goods and services are selected for, and sold in, industrial or consumer markets.

It is essential to note that Marketing as we have defined it, includes both the *choice* of the goods and services to be sold, and the policies in fact *to sell* such goods and services. The definition explicity combines the strategic decisions of what and to whom to direct one's attention and the tactical decisions of how to sell the goods and services. The combining of the strategic or long-run with the tactical or short-run is a major point in my talk today. Marketing in a developed economy and even more so in a developing economy must be conceived of as an integrated set of activities linking potential markets with the country's resources and capabilities. Whereas, to limit marketing to merely the selling of given goods and services is to confuse selling with marketing and to invite gross inefficiency and ineffectiveness in utilizing a country's resources. The selection of goods and services most appropriate for selected markets must be included in 'marketing'.

Indeed and most emphatically, for a developing country the problem of deciding what goods and services to offer for sale is in many senses the more critical marketing problem than the decision of what price and promotional appeals to employ with respect to the goods and services. An old axiom in marketing is that a product carefully selected vis-a-vis given market is half-sold already. If anything this axiom – extremely relevant to any economy – is too conservative. Three-quarters sold is more like it.

A developing economy typically has a limited domestic market and must rely substantially on exporting and importing for economic growth. Because growth depends on sales in export markets, there are special problems in conducting marketing research, namely the costliness as well as cultural complexities in analysing foreign demand, plus some inevitably greater time-lag between demand analysis and appropriate adjustment of one's mix of products and promotional appeals. These and other complexities need not detract from our focus of establishing a framework for thinking about marketing.

A developing economy, particularly a small developing economy, may be likened to a single business organisation. Analogous to a business organisation:

(1) there is in a developing economy considerable agreement on the identification and ranking of economic goals;

(2) there is a recognition of the need to develop markets, in particular, new product or geographic markets; and

(3) there is general agreement on the major resource strengths and capabilities the country possesses.

In short, there is sufficient cohesiveness regarding goals and basic resources that the analogy to a single business organisation is not inappropriate. Accordingly, a developing economy is essentially a large single business organisation with the potential for diversified activities seeking to link its resources with markets in a manner which best attains the stated goals. To do this, the developing economy must adopt a marketing perspective. What is a marketing perspective?

As leading marketing practitioners and scholars will attest, successful marketing involves a set of steps, each one of which is a necessary but not sufficient condition for success. In many articles and discussions this total set is called, appropriately enough, 'The Marketing Concept'. Of what does this marketing perspective or marketing concept consist? It consists of four parts:

1. Selection of Target Markets

The country must identify which sets of customer-types, i.e., markets, it is interested in pursuing. The term 'target markets' is apt, for unless a country (or firm) selects particular homogeneous subgroups of customers as targets it cannot hope to be efficient and effective in utilizing its resources. Without the selection of target markets the country or firm ends up being all or some things to all or some people. A hopeless plight. We all know what has happened, and to those that remain still happening, to the 'general store'. If resources were unlimited, which alas they are not, the selection of target markets would be unnecessary. Similarly, selection of target markets would be unnecessary if all customers were identical in tastes, wants, and purchasing power. However, in a scarce resource and heterogeneous world – the real world – it is only by selecting target markets and responding appropriately to them that the scarce resources can be allocated efficiently and competitive effectiveness attained.

What are the criteria for selecting target markets? I would suggest at least three major criteria. The first criterion is the country's *resource strengths* and *capabilities*. Thus, for example, if by reason of location, climate, or points of interest, there is a strong potential for tourism, then this capability is a factor in the choice process. Similarly if a country has mineral wealth of such and so variety then this also is a factor in selecting target markets. Or if the country has a substantial pool of skilled or unskilled labor, this is a factor to be considered. And so on. Finally, one develops a list of the resource strengths and capabilities which the country wishes to capitalize upon.

The second criterion is the current and especially expected future *growth* of the various groups of demanders for the resources singled out. Other things equal, rapidly growing markets are preferable to slow growing or static markets. This is especially so if the country cannot enjoy comparative advantage, i.e., lower costs of production, or differentiation, and hence a superior product. Thus, if the country has no production or quality advantage, it has no monopoly power in the long run – and thus it should place considerable emphasis on the expected growth rates of the candidate markets.

The third criterion is related to the second. It is the *opportunity* *for creating comparative advantage or differentiation.* The issue is the degree to which a country can establish a production or quality advantage. Obviously not all candidate markets suggest an equal opportunity in these regards. A country with a short period of warm temperature enjoys no comparative advantage in regard to tourists desiring vacations in warm climates. However, it may perceive subgroups of tourists for which it could nevertheless offer a superior quality of vacation experience. Thus for this hypothetical country, its advantage if any, must come in the quality of the product rather than the cost of production. Of course other assumptions regarding desalinization techniques, the advent of solar radiation, the economic as well as environmental effects such as water-temperature effects of nuclear power plants, and so on, could alter the ranking of markets being considered as targets. The point is simply that the *opportunity* for creating comparative advantage or differentiation must be carefully considered in the selection of target markets. Additional criteria will not be mentioned, though many countries will wish also to rank target markets in terms of their environmental effects, their political implications and other factors unique to the particular country.

Having mentioned the three major criteria, let me stress that the selection of target markets must be seen as a narrowing down to specific subgroups of customers – for in a world with diverse levels of affluence, customs, tastes, ideologies, and so on, there are numerous customer subcategories with quite different economic behaviour among them. The self-defeating result of blurring these important differences, at the limit ignoring these distinctions entirely, should be obvious to all. Let us illustrate briefly by considering Malta and tourism. Certainly one of Malta's major resource and capability potentials lies in the area of tourism – a point widely recognized by all Maltese. The growth potential and to a lesser degree the opportunity for differentiation are also recognized. 'Tourism' of course is not a sufficiently defined target market. Within tourism, one can for example, easily perceive important subcategories such as 'vacation tourists' and 'convention visitors'. Among vacation tourists, one might classify into subgroups such as tourists interested in scenery, or in more serious archaeological pursuits, or in relaxing in the sun. In addition, there are the socio-economic dimensions – from those desiring luxury accomodations on the one hand to economy-class on the other. (The latter as a mass market may well offer greater expected profitability than the smaller but higher-markup luxury group). Consider in addition the various affinity-group or independent groups in terms of tours and block bookings. Consider as well the hemispheric differences in terms of vacation times. And to these dimensions the subcategories comprised by ethnic and religious differences, and one easily sees that the tourism market is indeed a complex collection of submarkets. If the subcategories mentioned plus other relevant ones not mentioned were systematically listed, the many combinations (many of which imply vastly different behavior) indicate the requirement for careful selection of target markets. And, obviously, products and merchandising strategies must be tailored to the particular target market.

2. Analysis of Target Markets

The analysis of the candidate markets in the selection stage is conducted at a level sufficiently precise to enable use of the selection criteria. Once the target markets are selected, they are analysed further to attain a more complete understanding of the determinants of behavior of the demanders comprising each target market. The target markets are also analysed in terms of the competitors' behavior, the extent to which competitors match customers' desires, and the nature and probability of potential competition. (Once again, these aspects would be covered to a degree in the target-market-selection phase, but in this second phase, the analysis is in more detail).

In this second analysis of the selected target markets, the information obtained regarding the determinants of demander behavior and the nature of the competitive situation including the strengths and weaknesses of the primary competitors are inputs in the selection of the specific 'products', prices, promotion appeals, and distribution patterns. The other basic input for the selection of these elements is the information the country already has regarding its opportunities for comparative advantage and differentiation. Thus, the analysis of the target markets provides information on customers and competition which in conjunction with the information developed in the selection stage, permits a rational selection of the 'merchandising mix'.

3. SELECTION OF THE MERCHANDISING OR MARKETING MIX

It is only upon the completion of phase one, the selection of target markets, and phase two, analysis of these target markets, that the country (firm) is in a position rationally to select its merchandising or what's generally called its 'marketing mix'. Probably few in this audience would disagree with the point being made that it is simply logical first to select one's target markets, analyse those markets carefully from demander and competitive standpoints, and then, but only then, select the particular product (good or service), and the price, promotion and distribution which will maximise long-run gains. However impeccable this logic, it is honored more in the breach than adherence. The logic represents a market-oriented sequence – the market is selected and analysed, from which inferences are drawn for the product, price, promotion and distribution *mix* that will best attain the desired goals. Common practice on the other hand apparently is represented by the 'logic' of a product-oriented approach, in which one starts not with a market selection and analysis but with a product in hand. He then attempts to 'sell' this product which involves finding (hopefully) a market and pushing hard in terms of price and promotion. Square pegs enter round holes only with difficulty. A product-oriented rather than market-oriented approach no doubt is a major reason for the astoundingly high 70% mortality rate of new products in the United States. It is possible that many of these same marketers (countries or firms) adopt a market orientation at the outset of their marketing, but slide into a sacred-cow, product-oriented mentality thereafter. My product right or wrong!

A mental picture useful in maintaining a focus on the market rather than the product, is to think of a particular target market denoted by a symbol at the center of a circle. The circle is divided into four wedges – respectively called product, price, promotion, and distribution. These four elements comprise the merchandising or marketing mix – and importantly, the values they are assigned are strictly a function of the characteristics of the center of the pie: the target market. The proportions of the mix comprised by an emphasis on product quality or design, or price appeal, or promotion appeal, or distribution improvements are variable, depends always on what the marketer perceives to be the optimal avenue to efficiency and differentiation. Hence the determination of the marketing mix is from a market orientation.

4. CONSTANT REAPPRAISAL OF TARGET MARKETS AND MARKETING MIXES

Unfortunately the world refuses to be other than an extremely uncertain place. However, carefully one selects his target markets or marketing mixes with respect to them, one may miscalculate. Or even with correct initial decisions, the market conditions may change rapidly. In either event, only a close monitoring of his target markets in relation to performance standards he establishes will enable him to know when and how marketing-mix adjustments are required, or whether other target markets are now more suitable than one or more in his current set of target markets. The expected growth rate of the current markets may be positive and substantial, but if other candidate target markets are as attractive in other regards as well as indicating a more rapid long-term growth rate, the country may wish to switch in part or whole to the other market. In many cases the redirecting of one's resources to another market does not require a complete retooling and construction of new plant and equipment. The extensive data on diversification in the United States for example, show that the vast majority of diversification is accomplished *within* the existing plant and equipment with only relatively minor additional investment in real capital required. This is a generalization of course, and exceptions do exist. However, the data strongly indicate that a country or firm may have ample opportunity to address other target markets, or adjust marketing mixes, within the framework of existing plant and equipment.

In short, continuous monitoring of one's performance in the target markets is required. And one continually should ask and be prepared to answer whether other marketing mixes or other target markets are called for. The marketing concept insists that any emotional attachment is proper to performance not products, and hence it insists upon a sensitivity to market signals not personal preferences.

Let us now turn from the four component stages of the marketing concept to a brief consideration of three additional points in the relation of marketing to economic development. First, as noted, technological progress in the form of improved production processes and products is an economic goal of most countries, developing or developed. A developing economy has little technological depth, and thus, completely internal development of technological change is slow and costly. How can it inject additional amounts of technological change? One approach – and note I speak only from an economic not a political or social perspective – is the multinational firm. A recent study in the United Kingdom examining the economic effects of multinational firms on the U.K. economy found, perhaps to the investigators' surprise, that multinational firms earned good (or at least non-negative) marks in regard to efficiency impacts, technological change, balance of payments, and employment effects. Obviously, the U.K. is not generally considered a 'developing' economy. Thus the economic impacts of the multinational firms noted there do not necessarily apply to developing economies. My point is simply that developing countries in terms of possible economic advantages ought not to dismiss multinational firms out of hand. (The potential political and social effects of multinational firms are well known and moreover beyond the the scope of my talk tonight).

Second, though the basic thrust of my comments has been on the marketing concept and that the logic of that concept is independent of the particular arrangement of economic activity, two implications of competition deserve comment. The numerous studies on the relationship between the strength of rivalry in a market and efficiency and technological change show conclusively the following: Efficiency defined as the development of improved processes and products, is *positively* related to the strength of competition in a market. Atomistic or purely competitive markets aside, in markets where competition is among the relatively few, the greater is the pressure from current competitors or potential competitors threatening to enter, the greater is the efficiency and rate of technological change. The benevolent monopolist is largely a myth both as to improved efficiency and improved products. Moreover, firms are consumer oriented primarily to the extent competition forces them to focus continuously on the market – and they are the more efficient in that the more consumer or market oriented, the closer they follow the marketing concept.

Third, what is the socially optimal combination of goods in a market? Or what is the socially right price (a timely topic indeed)? From strictly an efficiency perspective (that is, equity considerations aside), the socially optimal combination of goods or socially right price is that which obtains in a competitive market. By competitive market, I mean precisely a market with sufficient pressure from other competitors or potential on current suppliers to force them to a consumer orientation. If forced, and forced continuously through these market pressures, they will necessarily identify consumer desires, adjust their marketing mixes accordingly; the result of which is socially optimal combinations of goods and socially right prices. The moral to this last tale is the maintenance of open, vigorously competitive markets. Then, but only then, does the market define for us what is socially optimal from an efficiency standpoint.

By way of brief summary, the marketing concept involves first the selecting of target markets, next the careful analysis of those markets, and then, and only then the selection of goods and services as well as price, promotion, and distribution policies. The market selection and analysis must come before not after the selection of products. Moreover, one must remain flexible as to what shall be his target markets as well as the marketing mixes he uses in each target market. The marketing concept is applicable to both developed and developing economies. Indeed, it is essential for the more complete attainment of certain economic goals held by virtually all economies. It applies both to attracting industry to the country and linking the country's resources to markets. Insisting as it does on a market rather than a product orientation, the marketing concept is no guarantee to success, but if one is a betting man the odds are far better with it than without it. And what's more, the probability of successful adjustment and adaptation to changes in market conditions is far higher. In an uncertain world, that is saying quite a bit!