

## **Some Empirical Tests of the Marketing Concept**

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It is often taken for granted that the marketing concept is true. The concept is usually expressed as the assertion that firms which are marketing oriented will do better than firms which are not. In a programme of research at Massey University this assertion is being put to the test by comparing the financial results of firms which exhibit high levels of marketing orientation with those that exhibit lower levels of marketing orientation. The results obtained so far show no evidence of a relationship between marketing orientation and financial success.

Keywords: marketing concept, marketing orientation

### **Introduction**

There is almost universal acceptance of the 'marketing concept'. Firms which adopt the marketing concept are said to be marketing oriented, rather than production oriented. Production oriented firms are typically thought of as being technologically proficient. They place emphasis on product development, believing that business success is achieved by producing technically advanced or high quality products, which then have to be sold in sufficient quantities and at a price that makes a satisfactory profit. Marketing oriented firms, on the other hand, believe that success is achieved by first finding out what consumer needs are, and then producing goods to satisfy those needs. There is, of course, more to the marketing concept than this; it has been developed considerably since Levitt (1960) first articulated the idea and coined the phrases 'product oriented' and 'customer oriented' to describe the two different approaches to business. But the key assertion, that firms which adopt the marketing concept are more likely to be successful than those which do not, remains.

This assertion can be tested empirically by assessing the extent to which firms are marketing oriented, by a measure that is independent of their success, and correlating this with some measure of success. The purpose of this paper is to present the results of hitherto unpublished reports of small scale empirical studies on the marketing concept that have been conducted at Massey University.

### **Measurement for Empirical Studies**

Conventional measures of business success include return on investment (ROI), profit margin or markup, market share, rate of increase in profit, and rate of increase in net assets.

Measures of marketing orientation are harder to find. One method of measurement that has found broad acceptance is the marketing 'effectiveness rating instrument' (ERI), developed by Kotler (1982) and used by Kotler and others (Kotler 1982; Decker 1985; Abdel-Monen 1986) to assess the extent of the adoption of the marketing concept in various industries.

The ERI consists of fifteen questions arranged in five sets of three. Each set attempts to measure five 'marketing attributes'. These are: customer philosophy, an integrated marketing organisation, adequate marketing information, a strategic orientation and operational efficiency. There are thus five marketing attribute scores (MAS) that make up a marketing

orientation score (MOS). For instance, for the attribute customer philosophy, firms are scored on whether:

1. Management recognises the importance of designing the organisation to serve the needs and wants of chosen markets.
2. Management develops different offerings and marketing plans for different segments of the market.
3. Management takes a broad view of its publics in planning and running the organisation.

The sum of these scores gives the MAS for customer philosophy. The firm is scored in the same way for each of the other attributes and the sum of all the attribute scores gives a marketing orientation score (MOS).

### **Published Empirical Studies**

A number of studies have investigated the relationship between certain marketing practices and success. Griffen (1982) found a positive association between the use of market research and other standard marketing methods, and success of a sample of Puerto Rican firms. Hart and Diamantopoulos (1990) also reported that, in the United Kingdom, the use of market research was positively correlated with success. Hooley and Lynch (1985) found that the use of formal marketing planning techniques was associated with success among United Kingdom firms, and Baker and Hart (1989) have demonstrated that more successful firms in the United Kingdom place a higher value on marketing and engage more actively in marketing activities. On the other hand, van der Walt et al. found no association between the use of marketing planning and success in New Zealand (van der Walt, Lysonski, Queree, Harper & Halis, 1989).

Relatively few studies have investigated the extent to which marketing orientation is associated with success. Narver and Slater (1990) found a positive correlation between managers' self assessment of profitability, relative to that of other managers in the same corporation, and a measure of marketing orientation. This study, however, used an expanded definition of marketing orientation, where two thirds of the marketing orientation score depended on whether the business unit was competitor oriented and had interfunctional coordination (sic), and one third depended on whether the business unit was customer oriented.

### **Unpublished Empirical Studies**

Three unpublished small-scale studies on the relationship between marketing orientation and success have been carried out at Massey University. Ahie (1987) used face-to-face interviews to study a sample of fifty firms employing at least one member of the New Zealand Market Research Society. Three firms had gone out of business and refusals and unusable returns left fifteen usable responses. Marketing orientation was measured using Kotler's ERI. The measures of success were return on investment (ROI), and change in ROI over the five year period 1982 to 1987. Profit margin was also measured as was the change in profit margin over the period.

From preliminary examination of the data it was clear that there were substantial differences in ROI between manufacturing and service firms. So, using regression analysis with the dependent variables ROI and profit margin, and the independent variable industry affiliation, the effect of marketing orientation on the dependent variables was measured by noting the change in explanatory power of the equation when the MOS and the MAS were included, compared to when they were not. The results are shown in Table 1.

**Table 1. The effect of marketing orientation on ROI and profit margin**

Dependent variable	R <sup>2</sup> industry only	R <sup>2</sup> with MAS	Difference with MAS	R <sup>2</sup> with MOS	Difference with MOS
Margin	0.04	0.60	0.56*	-0.04	-0.08
ROI	0.60	0.59	-0.01	0.57	-0.03
Change in Margin	-0.05	0.48	0.53*	0.44	0.49*
Change in ROI	-0.04	-0.19	-0.15	0.04	0.08

Notes: 1. The R<sup>2</sup> values are adjusted for degrees of freedom. Negative values indicate that the adjustment is larger than the unadjusted R<sup>2</sup>.  
2. An \* indicates that the improvement resulting from the inclusion of MAS or MOS is significant at the 5% level or better.

Neither the marketing attribute scores (MAS) nor marketing orientation scores (MOS) made a significant contribution to the variation in ROI. However, around 50% of the variation in profit margin could be attributed to MAS, although it was not so evident when the attribute scores were aggregated. It appears that marketing oriented firms have higher markups but that the higher markups do not contribute to higher overall profit.

Thomas (1988) attempted to conduct face-to-face interviews with a sample of seventy four Palmerston North retailers. Thirteen had gone out of business, eighteen refused to participate and, of the forty three left, only ten were willing to provide financial data. Marketing orientation scores were correlated with profit margin and ROI. The results are presented in Table 2.

**Table 2. Coefficients of determination between marketing orientation and success**

Dependent variable	Beta coefficient	Significance of coefficient	R <sup>2</sup>
Margin	-0.46	0.22	0.10
ROI	-0.57	0.11	0.23
Change in margin	0.03	0.72	0.00
Change in ROI	0.62	0.57	0.00

Source: Thomas (1988)

Note: The R<sup>2</sup> values are adjusted for degrees of freedom and negative values have been converted to zero.

The negative value of the coefficients for margin and ROI indicates a negative correlation between the ERI scores and the measures of success, but the level of significance means that the estimate is rather imprecise, and caution should be used in interpreting these results.

Wilson (1989) used a mail survey of two hundred firms to collect marketing orientation and success data for the period 1985 to 1989. The firms were selected from the New Zealand Business Who's Who so that the proportion in the sample in each geographic location was the same as the proportion of the total number of firms in each location. The response rate was 68%, but only 23% provided adequate financial data. The MAS and the MOS were correlated with ROI and profit margin.

The results failed to demonstrate any clear association between marketing orientation and success, as is illustrated in Table 3. However, the small sample size and the low response rate mean that the estimates of association are rather imprecise.

Further, caution is required when interpreting these results because subsequent interviews with some of the responding firms threw doubt on the validity of the data collected using self-completion questionnaires. There was little similarity between the ERI scores provided by the firms' managers and those arrived at by the interviewer.

**Table 3. Coefficients of determination between marketing orientation scores (MOS), marketing attribute scores (MAS), and success**

Dependent variable	Year	n	R <sup>2</sup> for MOS	Signif. For MOS	R <sup>2</sup> for MAS	Signif. For MAS
<b>ROI</b>	1989	17	0.17	0.06	0.30	0.11
	1988	27	0.09	0.07	0.05	0.30
	1987	26	0.00	0.56	0.00	0.90
	1986	24	0.01	0.27	0.00	0.51
	1985	19	0.12	0.08	0.00	0.57
<b>Margin</b>	1989	20	0.19	0.03	0.21	0.14
	1988	36	0.00	0.88	0.05	0.27
	1987	34	0.00	0.87	0.01	0.41
	1986	31	0.00	0.69	0.09	0.19
	1985	26	0.00	0.33	0.00	0.49

Source: Wilson (1989)

Note. The R<sup>2</sup> values are adjusted for degrees of freedom and negative values have been converted to zero.

## Discussion

The results presented here are tentative because the research projects share certain limitations. First, the sample sizes were small. This may account for low levels of significance, but not the consistent lack of correlation.

Second, the very low response rate means that if non-response bias is present at all, it would significantly affect the results.

Third, differences in the level of success may have been due to factors such as the varying profitability of different industries, or the size of firms, or the degree of cost control, which were not controlled in these studies. This would also lead to lack of precision in the results, or to confounding of the results if the omitted factors were related to marketing orientation. This is to some degree mitigated in Thomas's study which used a sample consisting of retailers in a single region, and in Ahie's analysis which made some allowance for the industry effect.

Also, Ahie's sample was drawn from firms employing a member of the Market Research Society, and it might be argued that these are likely to be among the more marketing oriented firms. So the available variance in marketing orientation was probably less than would have been the case if all firms had been sampled.

The limitations of the studies mean that the results do not justify the conclusion that the marketing concept is false. But it remains true that the only investigations in New Zealand of the truth of the marketing concept have failed to provide any empirical support for the concept.

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