

General Theory of Marketing

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Stockholm, March 1999
Revised March 2003

General Theory of Marketing

INTRODUCTION

Marketing is, conventionally, an empirical discipline based on a number of minor concepts and reasoning. There are several definitions but no actual, fundamental theory. A generally acceptable definition, in essential confirming to the conventional view, would be:

"Marketing is a discipline uniting activities aimed at enhancing the potential for sales of goods and services."

The lack of fundamental theoretical definitions has been one complicating factor in the understanding and, consequently, relations between different functions in companies, especially the departments of product development, marketing and sales.

Besides marketing "as such", according to accepted definitions, it is possible to identify *marketing driven* activities, like product development and industrial design ("styling").

The activity in a market, money and products incessantly changing hands, can be explained by two principles:

- 1. The dynamics of a market requires that the same commodity is differently evaluated by different actors and in different situations.***
- 2. Driving force for a transaction is on hand when an actor evaluates the utility he wants higher than the one he trades.***

The following attempt to form a general theory of marketing makes it possible to relate existing concepts and reasoning to each other by means of the common denominator of *value*, discussing its appreciation, development, and exchange.

The main ambition has been to offer an approach close to reality, where the exchange rate of products (goods and/or services) and money – *the price-value relation* – is the reason for acceptance, reject or negotiation between seller and buyer in every single transaction.

This theory starts at the undisputed objective and thus centerpoint of all commercial activity – *the transaction of selling and buying* – and works its way from there, still keeping its feet on the ground.

The synthesis of the here introduced notion of "*the Audience of Marketing*" and the generally accepted definition of Value, form the starting point for the reasoning. The logical line of argument following, leads to my (previously published 1990, 1996, 1998) model of "*the Evaluating Audience*" and the "*Price-Value Balance Model*" - now the commercial *Transaction Model*.

As organisations are built and structured today, there are several functions, which are responsible for, or involved in, the creation of value. All re-

sources and activities that have a direct or even indirect influence on the development of customer perceived values, are integrated in the commercial system of the organisation, even if the nature of their interdependence is not commonly recognized.

It is the author's hope, that this theory will not only increase the understanding between key functions in companies, but also have its implications on how companies will be organized in the future.

Carl Eric Linn
Stockholm, March 1999

The writing of my latest book (Värdeskapandets Dynamik, Meta Management Publishing AB, Stockholm 2002) has given me new and deeper insights into the price-demand relations of branded products, which have urged me to make some essential changes in this theory, especially concerning the Second Postulate.

Carl Eric Linn
Stockholm, March 2003

Carl Eric Linn
General Theory of Marketing

1.

**The Crucial Definition:
Value**

The conventional definition of (economic) Value as of Webster's Dictionary is applied: "The amount of another commodity for which a given thing can be exchanged. [...] A fair return in goods, services or money for something exchanged.[...]". Also monetary cash or monetary credit is such a commodity.

2.

**The First Deduction:
Real in the moment of transaction only**

Consequently, (economic) Value has to be regarded as hypothetical or potential in all situations, except in the actual moment of the decision to buy, exchange or sell, when the exchange rate between money and the object is set in the course of the transaction. *The operative value is thus in every occasion a consequence of the immediate situation of the evaluators.*

3.

**The First Postulate:
Value \geq Price triggers the transaction**

Price and value are, in principle, the same phenomenon regarded from the opposite positions. Price is the level above which the seller is willing to exchange his/her product for money. The buyer's opinion on value in relation to price is expressed by the amount of money he/she is ready to exchange for the product. *The transaction will be performed at the moment when the buyer realises that the value of the offer is equal with or higher than the price asked (including all costs that he/she is aware of).*

4.

**The Second Postulate:
Marketing produces competitive power by metaproducts**

The value of a (hypothetic) generic product could be assumed to be based on substance and utility values. The outcome of its sales can be described by a price-demand diagram. For the generic product, or commodity, the price elasticity ($E = \Delta Q / \Delta P$) is negative. We assume here that it follows a curve according to $R = Q \times P$, a "classic" price-demand curve.

Without affecting the substance or utility values, further *marketing driven* values can be added. (With the help of marketing communication, de-

sign/"styling", through branding, etc.) This means that the product is moved to a higher value potential, it is *excited* to a new value level. The value of an intangible phase of the product, a *metaproduct*, has been added, *according to the buyers' perception*.

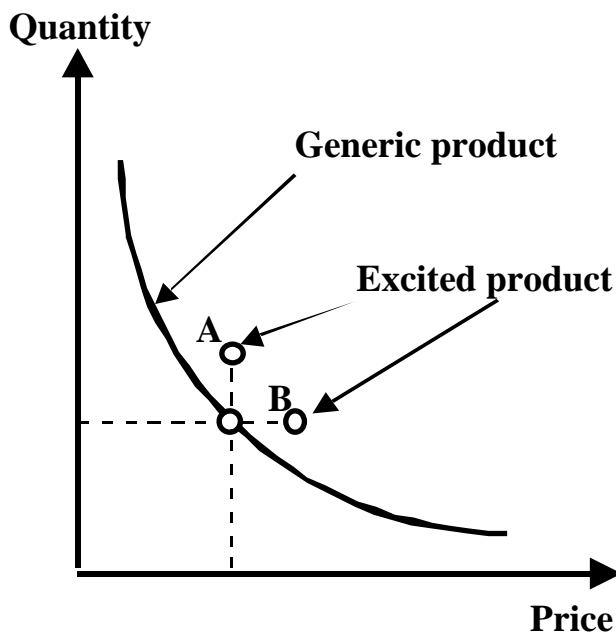
In this instance, however, the added *metavalue* of the product is *limited* to the finite population that has had its valuation influenced by these marketing activities, and where they are socially accepted – its *audience*. We are now studying a *functionally branded* product.

In this new position, any attempt to describe the price-demand relations of the product will be affected partly by the fact that its *metavalue* is limited to its finite audience, partly by the socially motivated value-influencing dimension of the price. This is the main reason why the economical behaviour of branded products mostly is discussed in terms of empirically founded degrees of price elasticity.

Nothing indicates, consequently, that the sales of the excited product would follow a new "classic" price-demand curve when its price is changed. Even a positive price elasticity is conceivable for the branded product.

In the illustration, the product in the position A has gained a pure *volume premium* and B a pure *price premium* over the original generic product.

The excited product differs from a comparable generic product by the value of its metaproduct. Its higher competitive power is demonstrated by higher transaction prices and/or quantities sold.



5.
The Second Deduction:

Marketing deals with branded products only

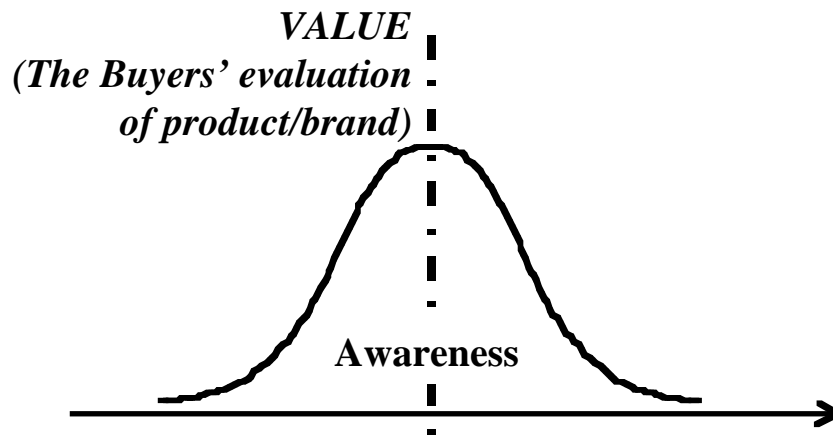
Marketing demands a differentiating name, trademark, brand, design or other form of identifying property of the products (i.e. goods and/or services) it deals with to render any marketing communication operative. *A product excited to include an amount of metavalue may thus be identified as functionally branded.* (This does not mean, however, that all of its metavalue has to be related to its brand!)

6.

The Third Deduction:

The full value exists in a specific audience only

In consequence with this reasoning it is obvious that the value of the functionally branded product only could exist within a population characterized by knowing the product/brand well enough to evaluate it against competing alternatives. This *"Audience of Marketing"* is recruited from the gross market by means of marketing activities. In this context it will be called *"The Evaluating Audience"*. We assume for the sake of this discussion that the shape of the population is a normal distribution but other shapes of distribution could be considered. *Consequently "The Evaluating Audience" would be a central model in a commercial science of marketing and branding - "Commerzialistics".*



7.

The Third Postulate:

The Evaluating Audience, a strictly instantaneous picture

Because of the constantly changing evaluation by the individuals of the population (See 2.!), the Evaluating Audience has to be seen as a *dynamic model*. The individuals change positions incessantly within the boundaries of the area like the molecules of a gas, according to their momentary valuation of the product as an object of transaction.

8.

The Fourth Postulate:

The product of the transaction is holistic

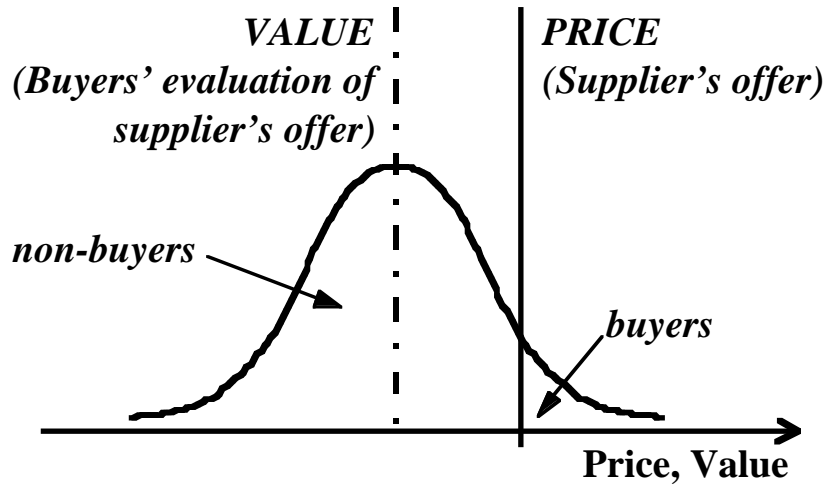
A relevant evaluation of the product in this context demands a *holistic* definition of "product" (in contrary to everyday usage, when the word product may mean any quantity, from the physical product only to the complete phenomenon, including all of its metaproduct). The handling of the product, in all models and reasoning, thus has to presume that all descriptions cover literally everything that has any influence on the evaluation of the offer; nothing can exist outside. *All "objective" as well as "subjective" grounds of evaluation have to be included – the buyer's personal as well as such following the competition in the market.*

9.

The Fourth Deduction:

The Price-Value Hypothesis demonstrates the dynamics

The abscissa in the diagram of The Evaluating Audience represents value as well as price (See 3.!) as they, actually, designate two aspects of the same phenomenon. The evaluation of the population of buyers is shown in its spread, whereas the price of the seller is absolutely defined. When we put the two actors into the same diagram we will have a distribution cut by a line. This model is called *the Price-Value Hypothesis*, PVH. The part of the population to the right of the price line represents actual buyers in this very moment (See 3.!), while the one to the left is mere potential buyers (See 7.!). Only the buyer evaluations close to the price line are by definition reliable; higher and lower values are more hypothetical. Usually nobody pays more than the asking price. The population to the left of the price line would have a number of reasons for not finding the product being worth the price asked; it is not available, they just bought one, it is functionally non-satisfactory, it is just not attractive, they don't have the economic resources or priorities, etc. *The PVH can be used for a dynamic analysis of the consequences of changes in price, evaluation and awareness.*

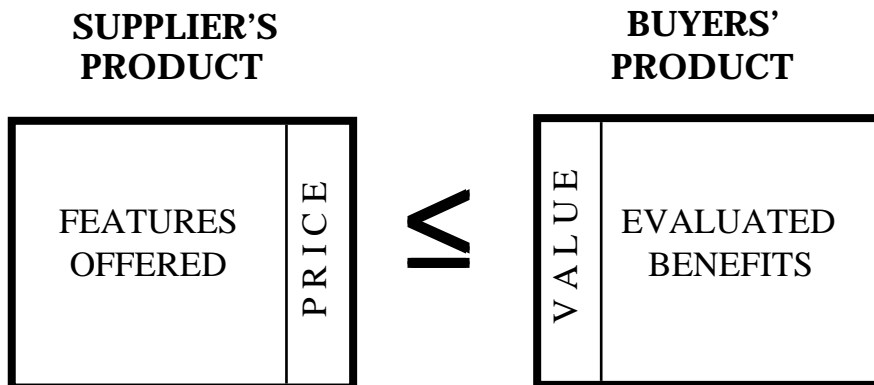


10.

The Fifth Deduction:

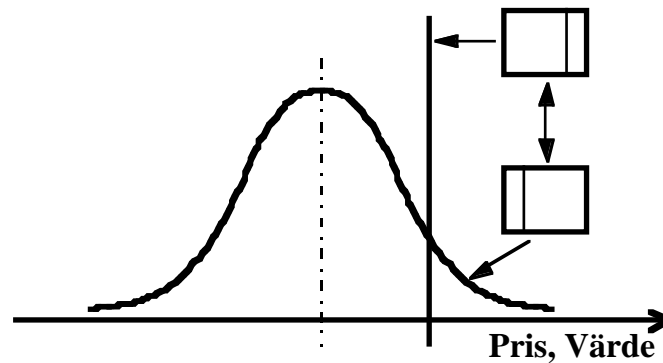
The commercial product is an equation

From the Price-Value Hypothesis follows that the object of the transaction – the product – has to be explained with *two* descriptions according to the principles for an equation. One showing the properties and features the seller/supplier has to offer to be able to ask a certain price enabling him to sell a certain quantity; *the Supplier's Product*. One showing what benefits these correspond to in the buyer's evaluation; *the Buyers' Product*. This model is called the commercial *Transaction Model*. The price factor in the Supplier's Product has to include all the costs of the acquisition, which the buyer is aware of and is able to judge, but not hidden or unforeseen actual or future costs. Other sacrifices for the acquisition should be included in the "equation" as negative entries in the evaluation of the buyer. The condition for completing the transaction is that the buyer evaluates the product to equal or more than the price asked (See 3.!).



Summary: **The Commercialistic Marketing Model shows it all**

With this theory it is possible to summarise the essentials of marketing in one picture. The product is developed in an interaction between conscious and unconscious, explicit and implicit demands, wishes, and ideas of supplier and buyers. When the product is presented to the audience, it responds by its evaluation of the offer.



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March 1999
Revised March 2003

III. APPENDIX 1.

A supporting model of behaviour:

The Paradigm of Survival

The "Paradigm of Survival" is used as basis for the understanding of buyer behaviour (Linn, C.E., Brand Dynamics, Atlanta 1998).

The understanding of human behavior has always been looked upon as a compulsory basis for practicing the discipline of marketing. So far, though, most economic and psychological models have failed to offer a complete understanding of the factors forming the basis for valuation. It is readily obvious that a reasonably reliable model for judging the seller's and the buyer's valuation of the objects of exchange in a business deal would be greeted with enthusiasm by all marketers.

Many attempts to explain human behavior and its underlying driving forces have been made over the years. In the last century alone, we have seen science produce many theories, in addition to the traditional religious ones, in an attempt to explain human behavior. Psychological theories covering a wide span, from the rather romantic ideas of psychologist Abraham Maslow to the stark, mechanistic views of behaviorism, have been used for understanding buying behavior.

The reasoning starts with the philosophical quest for the meaning of life as a foundation.

Maslow's contribution

Until recently, the psychologist Abraham Maslow's famous Hierarchy of Needs has been the dominating behavioral model used in the studies of marketing. Maslow's contribution was to offer a model for the behavior of normal human beings, in contrast to earlier psychology, which concentrated on the disturbances of the human psyche. The simple structure of Maslow's model made it seemingly easy to explain human behavior, which attracted early marketers. But, apart from it offering some general understanding of human behavior, application of the theory has shown that it does not equip marketers with much of a working tool.

A more concise understanding of human behavior, which is also better suited to the needs of marketing is offered by biology. This model is founded on an alternative definition of the meaning of life that has come out of the increasing interest in biological research in the last decade (e.g., Midgley 1978, deWaal 1996, Uddenberg 1998). According to biology, the meaning of life is to transport genes from our parents to our offspring.

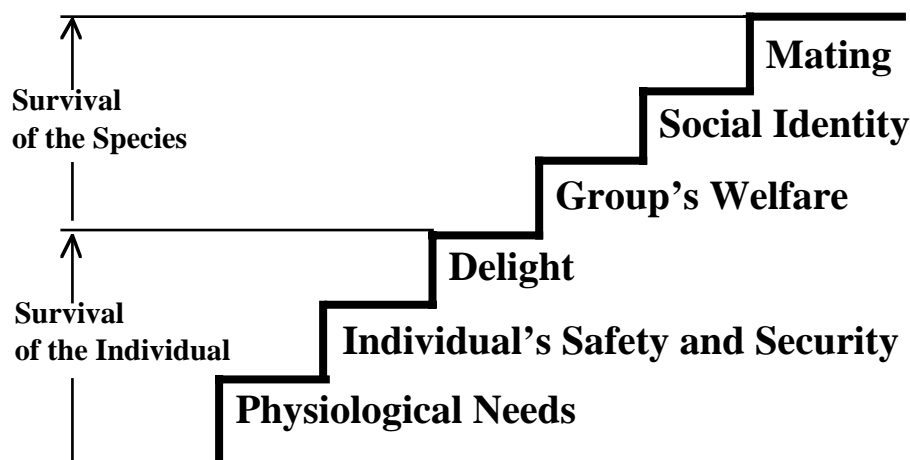
When Nature has bestowed a living being with a task to be accomplished, it has also equipped that being with the necessary basic tools, or programs, to fulfil the task. No one has to teach us – or any other living being – the necessity of eating, drinking, sleeping, etc. These tasks are inbred, or imprinted

in us instinctively. We instinctively know how to sleep in some basic, general terms, even if not in greater detail.

Our programming

Most living species in nature are made up of two sexes. The reason for "two" sexes lies in the idea that the result of the mating of two unique individuals is another unique individual. Diversity within a given population is best accomplished by a "two sexes" type mechanism for the passing of genetic information. Specifically, the ability to inherit one chromosome from the maternal parent, and one from the paternal parent. This type of reproduction creates the potential for a large number of unique offspring through genetic recombinations, vital to the survival of its own unique species. With the survival of the species as the ultimate goal, we are instinctively programmed to strive to mate with the member of the opposite sex who (in our own perceptions) will ensure us the best chance of survival and of producing healthy, viable offspring.

Now there is a question of logic, as to how exactly to establish the chain of conditions necessary in order to fulfil this task: the conditions which allow us not only to survive, but also that allow us to reproduce, thus, to make our own individual contribution towards the survival of our species. This chain of conditions, the basic program for our behavior, is illustrated by this "Paradigm of Survival."



The Paradigm of Survival (Linn, C.E. 1990)

First, to survive as individuals our needs include:

- Our Physiological Needs: eating, drinking, sleeping, keeping warm, etc. and other things which are necessary for our bodily survival. These are needs characterized by Maslow as "basic needs."
- Our Individual Safety and Security contains our need to take care of ourselves, and consequently to be afraid of dangers - heights, aggressive peo-

ple, dangerous animals - and, in modern times, financial insecurity (again, all "basic needs").

- The Delight factor means the nice, strictly personalized experiences that make life worth living, those which give pleasure to your life. Those as complex as the sense of freedom or comfort, or one that is more simply defined, such as the joy experienced by the warm sunlight against your face on a summer afternoon.

Second, to fulfil our social mission, our needs include:

- Group's Welfare, our instinctive urge to care for not only ourselves (and our families) also encompasses our instinctive need to care for other people, including strangers. This concept of Group Welfare is vital to our survival. The logic being, if we merely protected our own, eventually we would have no genetic diversity within our population - in other words, no one with which we could mate. This factor is the subject of recent research, which has revealed a striving for ethical behaviors, even among higher developed animals (de Waal 1996).
- Our Social Identity is the key to arrive at mating in the accepted way. No higher species demonstrates a rule to just mate at random. Lower species can be seen mimicking our own reproductive behaviors. Courting, fighting, and seduction: all are processes in the mating ritual which are evidenced in other species. In other species, however, these processes exist for the sole function of insuring a successful mating with the best available partner. Like most other species we seem to have to convey a sense of who we are in order for us to be appropriately judged by a potential partner. But we also need to be accepted by the group, and to be accepted by the most important individuals in the group. This is, in fact, the marketing of ourselves. All of this is basically driven by instincts. The program runs in the background of our being for life. It is also not merely a set of programs that can be switched off once we have attained a desired or expected minimum goal. Our need for Social Identity should not be misinterpreted for sexuality but is a prerequisite for natural selection inherent in most species. Thus this instinctive programming remains part of our being: it remains regardless of 1) whether we attained the goal or 2) whether the goal was even attainable. Thus a striving for Social Identity can be noticed as a normal feature also among affluent senior citizens, as well as among members the gay community. However, in the mind of the casual observer there is no direct correlation between the signs of our quest for Social Identity to our instinctive drive for reproduction. Many times these activities just seem normal, sometimes a bit odd, and sometimes they appear as boastful. But most frequently, they appear to have no relationship whatsoever with the desired end goal.
- And then there is Mating. The task of our biologic selves.

Conform or differentiate?

It is obvious that all these factors in the Paradigm have some meaning in a commercial situation, for marketing. In the intense commercial competition of the affluent society, those factors attracting the most interest among marketers are Safety, Delight, and Social Identity. But it is obvious that the exploration of Social Identity still may offer more in the way of understanding buyer behavior, even if many suppliers (product developers, marketers, sales people, etc.) already exploit it with great success in practice.

The strategy to become the chosen partner lies in demonstrating one's attractiveness. The needs of the Social Identity are twofold. First, the individual wants to be accepted as a member of his/her group, or society (i.e., "all males wear trousers ...") and consequently conforms to its norms. Secondly, he/she wants to be paid attention to as a unique individual, to be differentiated from all other members in the society (i.e., "...but they wear different ties"). This also helps explain our conspicuous consumption (Veblen 1925) for items such as Mercedes Benz cars and Rolex watches. However, this idea can also serve to explain the preference given to having particular physical attributes, such as a great suntan. One person might value physical attributes as highly as another might value a high paid corporate position at a top company: the particular "thing" being valued will be unique to each person.

Luckily, human beings are bestowed with a wide range of strategies to create the Social Identity that we instinctively need. Our Social Identity isn't founded just on physical attributes, great courage or strength, but also thrives on a keen intellect, a gentle manner with children, or just a fat wallet. Our social identity exists whether we chose to lead a rather plain life or whether we opt for an ostentatious lifestyle; or whether you chose to demonstrate your contempt of wealth and consumption by dressing down and driving an older car. It all is a question of how you want to be perceived by others, and how you perceive yourself.

Shopping for metavalue

Our instinct for Social Identity never sleeps. Recent research tells us that we always want to reassure ourselves of who we are, even when we are alone, which makes the emphasis on our behavior as buyers and consumers even stronger.

Depending on our personal strategy, we value different prospects differently. Rational needs taken care of, our Social Identity drives us to sell and buy to obtain the utilities that give us the most rewarding exchange for our transactions. Regardless if it gives us money or merchandise, we are looking for a personal benefit: the necessities for physical survival, the intangible reward of public acceptance or even the more subtle pleasure of contributing to charity. All is shopping for value – not the least meta values.

Professional behavior is no exception. It is well known that physicians prescription of medicines is based on their Social Identity as much as on their medicinal skill. The cautious physician sticks to prescribing the proven

tried and true drugs; while the one who wants to be regarded as the more "informed" or "in the know" physician prefers to offer his patients those pharmaceuticals which are derived from the latest, cutting edge medical research and development.

Even business-to-business

In big business, buyers of computers have been seen buying inexplicably more powerful and complex equipment. Some have blatantly opted for the flashiest, fastest, latest and greatest technology. In sharp contrast, there are still buyers who prefer to go with the traditional, basic, everyday outfit, which may be a safer purchase decision.

The two most influential reasons for choosing a certain brand or product, apart from its objectively assessable functional utility, are the buyer's need for Security and Safety, and his/her aspiration for Social Identity. Which, of course, may also be seen negatively as efforts to avoid any psycho-social risks.

Marketing in itself cannot, contrary to popular belief, create any basic needs. It may, though, be instrumental in suggesting ways of fulfillment of the strivings which are already there, as shown in the Paradigm. Moral and ethical aspects cannot be put on the need structure of the Paradigm as such. The need for food is not immoral, but if it is satisfied by cannibalism, the consequences of the need may be considered as such. The decision to buy a big, fuel-wasting off-road vehicle for urban driving only is, biologically seen, just normal, but may be unethical when regarded from an environmental point of view.

IV. APPENDIX 2.

Implications: The Forming of a Set of Tools

Linn's General Theory of Marketing forms a firm foundation for a set of tools for strategic and tactical analyses and development.

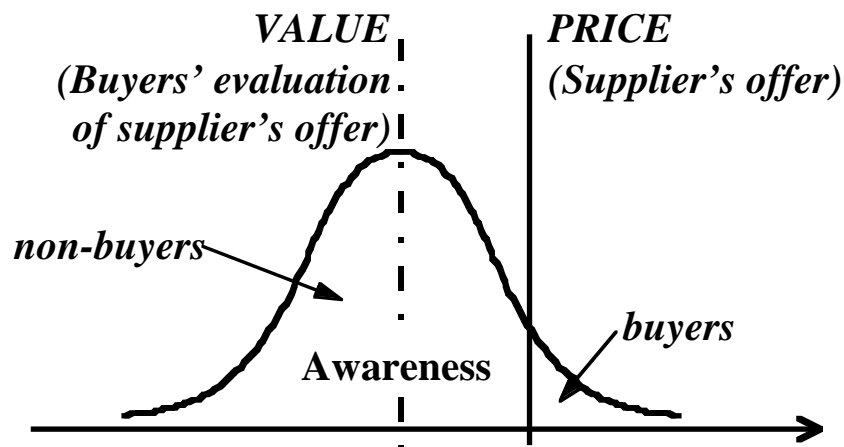
1.

The Dynamics of the Evaluating Audience

One set of models is derived from the "Evaluating Audience" which graphically demonstrates and defines the eleven cases (see fig.) of the consequences of changed value, price, size of population, and supply in the interaction between the supplier and his/her audience behaviour (Linn, C.E., Brand Dynamics, Atlanta 1998).

This series of models is used as basis for systematic analyses of the consequences of changes in supplier strategies and tactics as well as buyer behaviour and values.

The interrelation between the two actors – between the buyers' awareness and valuation of the products offered, and the supplier's marketing efforts – is demonstrated. The prerequisites of this crucial concept is the application of the two-sided product description and the notion of the metaproduct.



The Evaluating Audience

The prerequisites

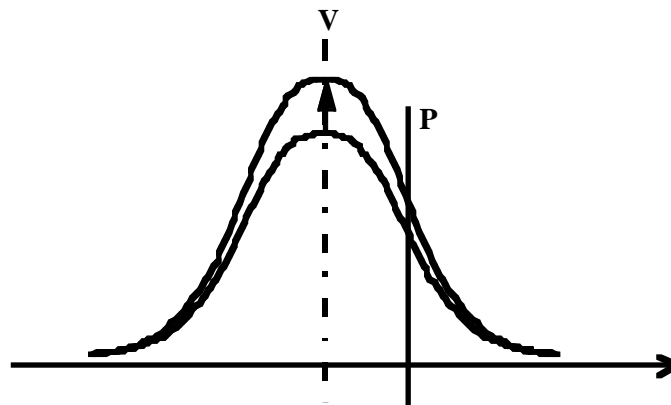
In its present form, the Evaluating Audience should be seen as a thought-provoking tool for education, analyses and discussions. The Evaluating Audience also offers, however, a scope for further research, with the apparent possibility for the analyses of specific price/demand curves for branded products.

The correct understanding of the Evaluating Audience model demands that the following conditions are observed:

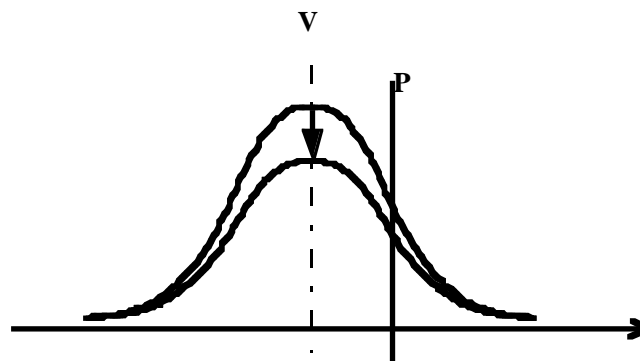
- The make-up of the Group – represented by the area of the distribution – is limited to individuals aware of, or well aware of, the product/brand, thus carrying a perceived value of the product as a basis for their decision on buying or not.
- "Buyers" are individuals actually buying the product - not just uncommittedly telling that they judge the product to be worth the price asked. The decision to buy is the proof, that an individual estimates the product to offer value for (his) money at his particular state of need. The share of buyers relative to non-buyers may thus, statistically, be fairly stable for massmarketed products, while the actual buyers are incessantly changing their position between buying and non-buying.

The eleven modes of The Evaluating Audience

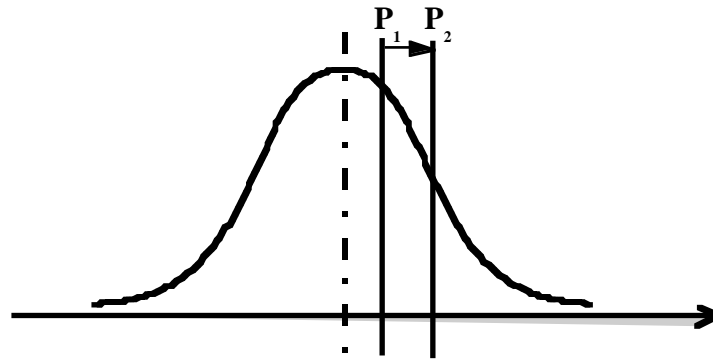
This comprehensive list of eleven Evaluating Audience modes assumes in the first place that the interest of the supplier is to increase his sales volume.



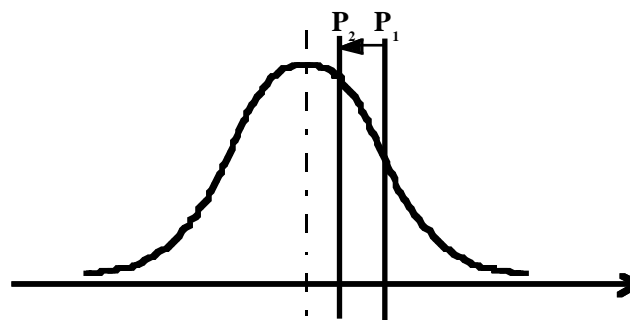
1. Expansion. The metavalue of a branded product is, by definition, non-existent outside of its Evaluating Audience. To increase the scope for sales of the differentiated, branded product, awareness of the product/brand may have to be increased in the market through expansion of the target group. Marketing communication may be used to accomplish this task. New members of the Evaluating Audience are supposed to accept the valuation of the product already existing in the Group.



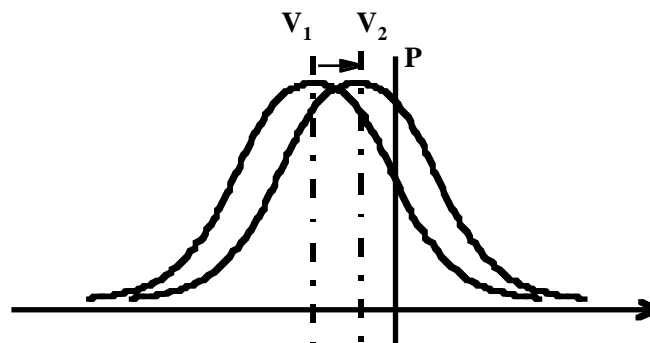
2. Erosion. A decrease in awareness may be caused by an insufficient intensity of market communication, but also by competitors conquering a "mind-share" from our product.



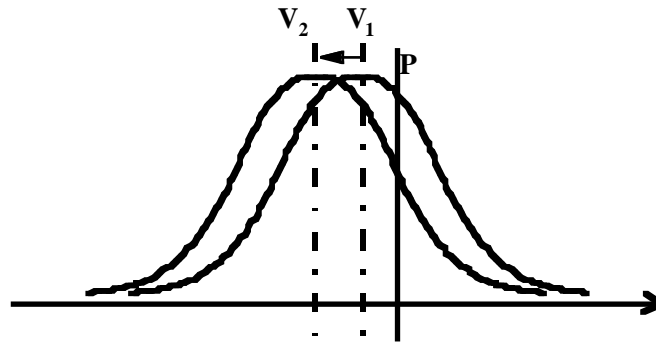
3. Price Increase. At a perfectly stable metavalue a price increase reduces the number of buyers. Any deviation from this causal connection has to be referred to in terms of the change of metavalue demonstrated under Upgrading or Overpricing, respectively.



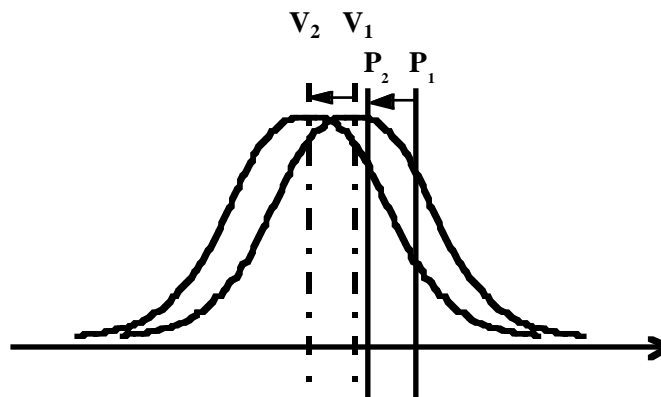
4. Price Reduction. At a perfectly stable metavalue a price reduction will result in an increase in sales. This is, in practice, generally restricted to temporary activities. The possible consequences of a permanent price reduction is dealt with under Regression.



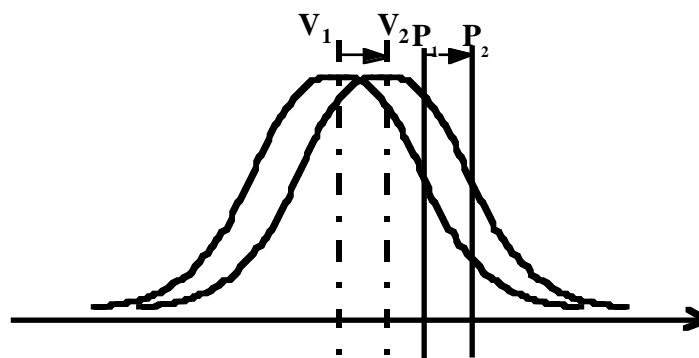
5. Revaluation. Vitalization means an increase in metavalue (buyer perceived value) at an unchanged price level. Whether this is performed with a virtually unchanged total product is arguable. This is, though, the illustration of a successful marketing communication activity targeted at the enhancement of the product/brand.



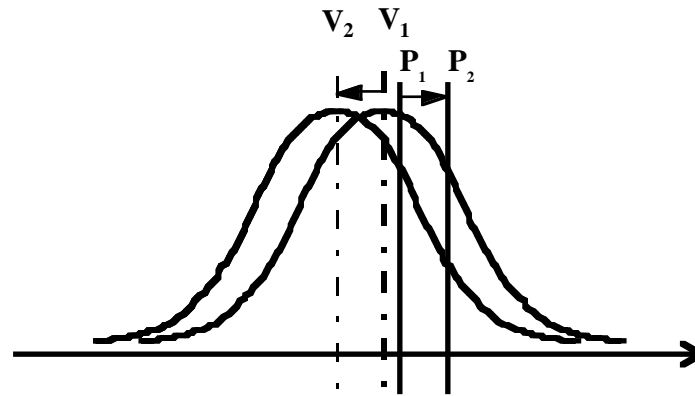
6. Devaluation. Buyers are often lost due to a depreciation of the product's Metavalue (i.e., a reduction of the level of the buyers' valuation of the Product). This could be due to many factors (e.g., increased competition, an aging product, reduced quality of physical product, reduced quality of customer service, or ineffective or destructive marketing communication).



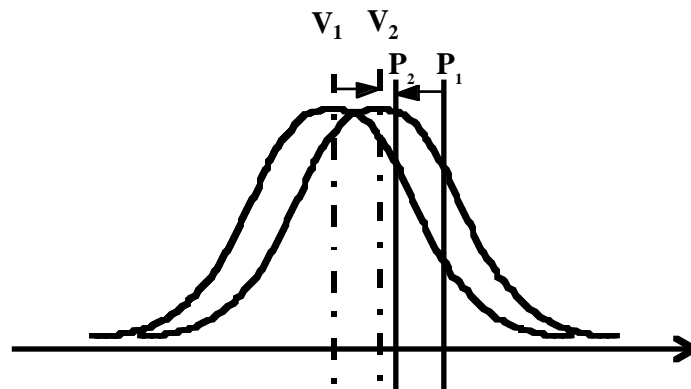
7. Regression. Regression is often the result of excessive price competition. Sales may be constant, or even increase, but the net revenue is negative. Regression is mostly seen as being forced upon by competition, but often enough it is induced by the sales organization within, or associated with, the company itself.



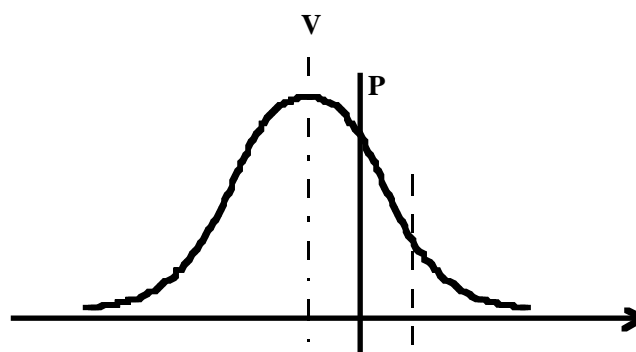
8. Upgrading. Upgrading is a more frequent phenomenon than commonly realized. Every product undergoing a price increase, but still managing to maintain sales levels, is in fact going through an Upgrading operation. An obvious Upgrading is characterized by a noticeable price increase connected with targeted marketing activities. The obvious risk of Upgrading is Overpricing.



9. Overpricing. The potentially fatal consequences of Overpricing will be clearly understood by this diagram. The added losses of customers through increased pricing and reduced metavalue is more than most products ever could. The impact on the product's metavalue may be disastrous, as Overpricing makes every minor flaw of quality very noticeable.



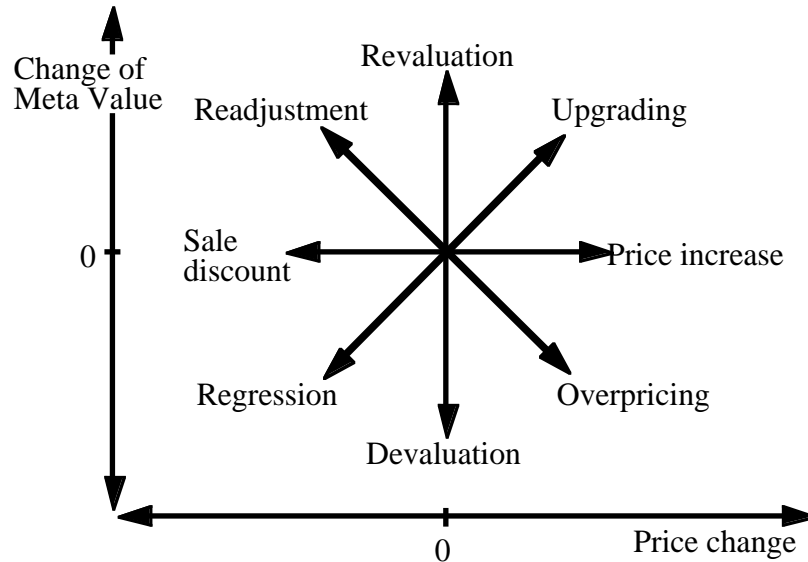
10. Compensation. The opposite of Overpricing. A price reduction alone will only in exceptional cases save a product from the disaster of Overpricing. Heavy marketing communication will be needed, but mostly, only a product re-formulation or re-specification will do the work.



11. Limited Supply. All other cases of the Evaluating Audience demonstrate the consequences in situations of more or less abundant supply. In this case we, however, imagine that the limited supply of products will be sold to the individuals that want them the most. In practice this happens when potential buyers metaphorically or actually line up for buying. The choice of the supplier is between keeping the buyers waiting or raising the price. Limited Supply could thus be seen as the sign of too low a price. Raising the price

will, however, always invoke the risk of Overpricing, as the metavalue of the product partly has been based on the added cost of waiting for it.

The summary of transitions



This diagram shows the complete scope of modes of transition within the Evaluating Audience for those modes of abundant supply which apply to a constant size of the audience.

**2.
 The Transaction Model**

An enterprise can be profitable only if the company can regularly sell its products for a price higher than what it costs to manufacture or acquire them. The objective of the enterprise, thus, is to cost-effectively evoke in the buyer an evaluation which will yield the desired profit margin. Just think of the obscene contrast between a 2000\$ Rolex watch in comparison to the equally accurate time-keeping device, a 50\$ Swatch when you just see them as such. And then realise that the buyers of the two are just as satisfied with their acquisitions.

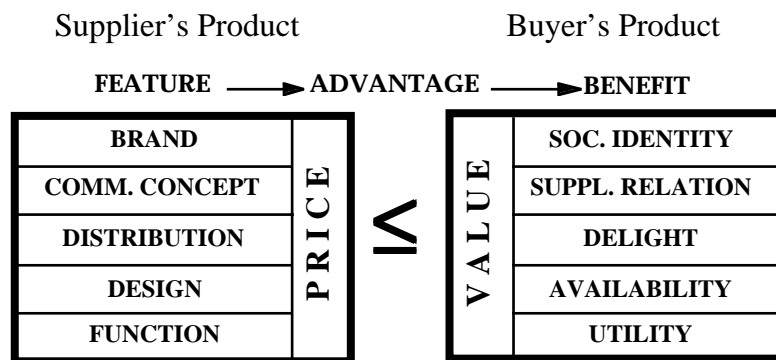
It is obvious that the supplier puts a price on a product he has created by different actions, and has to calculate what actions may create that value, whereas the buyer calculates what bonus he gets from the price he is asked to pay for this product.

The equilibrium can be illustrated by balancing the two product descriptions of the object of trade with each other: i.e., both the supplier's and the buyer's product. Here, the product is discussed at depth as the object of trade, whereas the exchange of money is seen as a prerequisite.

The supplier's complete offer, and the price asked for this total product, has to be balanced against the buyers' evaluation of this offer in view of their (anticipated) total gain from the deal.

The holistic model of the transaction

The set-up of this pivotal model: "The Commercialistic Transaction Model", has in its details been founded on theories, notions, structures and reasoning known and accepted in marketing and product development, as well as in the area of behavioural research (the "Paradigm", App 1). Its closest equivalent in traditional marketing is the 4P model and its successors.



The equational Transaction Model

The holistic character of this model implies that everything that the Supplier calls on for support of the price he/she is asking for his/her product is included in the "box" for the Supplier's Product. The same applies to the Buyer's product; everything that affects the value he/she appreciates as relevant to the product offered should be included here. The categorization of the contents of each "box" is, however, empirical.

One readily realizes that the buyer's evaluation of the object depends on far more than the rational utility derived from it. Availability, Delight, Supplier Relation, and Social Identity take on varying degrees of importance depending on the individual buyer, his situation at the moment and the kind of product.

From the supplier's point of view, the potential for achieving a positive buying decision will be affected by the quality of execution of the Function, Design, Distribution, Communications Concept and Brand Image of the product. All the supplier's activities intended to establish the product's value in the eyes of the buyer.

The buyer evaluates the product in view of the benefit desired: regardless of whether it is a question of its rational Utility or Availability, or whether it is a source of meta values that we find in Delight, Supplier Relation, or Social Identity.

An interactive model

The Transaction Model demonstrates the interactive relation between the supplier's offer and the buyer's perceived product. In the model we structure the means available for the supplier to induce physical as well as meta values – which, after all, are realised in the world of the buyers' perception.

The objective of the Supplier is to conceive a "total" product that is perceived as having a value higher than the price asked by a sufficient number of potential buyers.

It now becomes apparent that "product" serves as a mere "headline" of what we mean with the expression. The holistic product which we deal with here contains everything we associate with the product (either as suppliers or buyers). But what does, on the contrary, the everyday expression "product as such" mean, actually? The answer is that the "product as such" only exists in theory, because we never can understand any object without the help of any pre-recognition. A chair "as such" is just an inconceivable accumulation of matter without our acquired pre-recognition of what a chair is.

For the reason of logic and consistency, we have to choose between the holistic product and the "product as such": a non-comprehensible net product or the universally applicable, perceived gross product, metaproduct and all.

A realistic model

The problem put like this makes much earlier reasoning obsolete. Such is the case with the universally known, "marketing mix" 4P model (Product, Place, Promotion, Price) by McCarthy, promoted by Kotler (e.g. Kotler 1988). What product is it referring to – and seen by whom? And, what if you change Place, Promotion or Price – will the Product still be perceived as the same by potential buyers evaluating it?

The conclusion is that if we want reasonably realistic models for the development and marketing of branded products in competitive markets, oversimplified categories like the 4P-model will not be sufficient. Neither does the complexity of models like the "house of quality" make analyses easier to overview. The equational nature of the Transaction Model offers not only a realistic picture of the product, but also an easy understanding of the consequences of changes in the supplier's offer and the buyers' general and specific attitudes and values.

A hypothetical case

An axe can be used as a hypothetical example, starting with the Supplier's Product. The Function of the axe is chopping wood and by having it accomplished by a product with a lifetime guarantee on both the cutting edge and the handle. Like all other products, the design of the axe is not imposed on it at random: some designer made his subjective interpretation of the experience of professional lumberjacks; it is

hand-forged with a handle made of hickory. This is the physical product. To be able to sell it at a profit, the supplier advertises it as an axe for the professional. This is the Communications Concept. The brand is the Ajax brand (a hypothetical brand supposed to be well-known among foresters in Northern Europe) which implies considerable Brand Strength derived from its commercial history. The Distribution is through mail order. The Price is approximately double that of a comparable mass-produced axe.

The Buyer's Product is founded on rational and economical Utility, which is prospect for the buyer of buying a well functioning axe to a reasonable price/performance. This could, however, be overridden by the outcome of the other Buyer's Product factors. Its Availability is low; however, as it has to be ordered by mail. Delight is the feel of the perfectly balanced axe and its impeccable finish. The lacking Availability is compensated by the Supplier Relation, which comprises a life-long guarantee and a membership in the Ajax Tool Club. The buyer's Social Identity is heightened through buying a high quality, professional tool (even though the buyer himself is only a wealthy amateur).

The buyer's valuation of the axe is thus not only founded on his demands for utility - which should have guided him to an ordinary axe at half the price - but on the other factors (Delight, Supplier Relation and, not least of which is Social Identity) to give him value for his money.

THE SUPPLIER'S PRODUCT – DEFINITIONS

Differentiating potential values: adding to, compensating for, and offering synergies between each other.

- **FUNCTION** = What is the product supposed to do, how do you describe it in terms of performance and/or qualities? Does it offer a unique value in terms of function?
- **DESIGN** = What could be the contribution of the product's design, its perceived physics - aesthetics, graphics, ergonomics, smells, sounds, etc; its way of informing of its use, how it communicates quality? Could design of associated surroundings, like the corporate design program, packaging, displays, etc – add to its value?
- **COMMUNICATION CONCEPT** = What could be the contribution of the marketing communication message to the value of the product – to make it, to facilitate the use of it, to attract the chosen target group, to make it socially and/or professionally accepted?
- **DISTRIBUTION** = Does the system for distribution contribute to the perceived value of the product? Does it offer the degree of availability expected for a product of its price level? Is the distribution of technical service, information service, spares, etc., designed to add to the value by building relations for customer loyalty?

- **BRAND** = Does the product apply to existing "Brand Strategy" and "Brand Setting"? Will the product receive an added metavalue through its "Brand Promise"? Will it add to the value of the Brand? Is there a risk that it will hurt the Brand or cannibalize on other products – and thus needs a trademark of its own? Does it need a sub-trademark or just a generic model designation? Remember: changes in brand strategy, setting, etc. are effectuated through other factors, e.g. communications concept!
- **PRICE ASKED** = Is the price level strategically set for a chosen market segment? Is it differentiated to support marketing efforts - or is it set for head-on competition? Does the price confirm product qualities or emphasise them?

THE BUYER'S PRODUCT - DEFINITIONS

Positioning perceived values: adding to, compensating for, and offering synergies between each other.

- **UTILITY** = Value of rational fulfilment of basic needs - physiological needs, own and group's safety and security. Relief of laborious and time consuming tasks, and the enabling of new activities and tasks.
- **AVAILABILITY** = Value of availability in space and/or time concerning deliveries, sales service, general user support, spares, technical service, guarantee service, etc.
- **DELIGHT** = Value of buyer's own, private and isolated, sensual sensation from using the product. Feel, comfort, security and safety, taste, looks, noise level, etc.
- **SUPPLIER RELATION** = Value of pure social relation to the people supplying (servicing) the product. Are they (people, company) perceived as friendly, honest, trustworthy - are business deals and communication characterized by respect and a wish for lasting relation?
- **SOCIAL IDENTITY** = Social value of buying, owning and/or using the product (Brand) for the decision maker's, owner's or user's identity in his social surroundings. SI may be supported by either conspicuous or discreet consumption, and differently at any position on the "Camel Curve".
- **EVALUATION** = The individual evaluation of the product will decide if and when the buyer buys it. In mass marketing buyer's evaluation depends heavily on perceived credibility of the supplier and his brand. In the moment the buyer finds that the product offers him value for his money, he will exchange them for the product.

3. The Product Value Process

Several attempts have been made during the years to describe the development process of products. But it is easy now to understand the shortcomings of those processes suggested during the static, 4P era of marketing. A viable way of describing the process is, however, to focus on the inherent development of value.

A description of the development of customer perceived value must always have the description of the customer perceived product in focus. The major problem has been the translation to producer or supplier activities. Here the "house of quality" (Quality Function Deployment, QFD) is one well-known method. The QFD matrix cross relating product features and customer benefits however demonstrates an over-rational belief in the buyer's capacity of evaluating a multitude of variables. Modern product development theory thus has taken its turn to simpler models.

There are other promising attempts to bridge the customer domain to those concerning a product developing company. It should be obvious at this stage, though, that the concept presented in this book offers a new and more viable approach, founded, as it is, on a model of the exchange of value between supplier and buyer.

The development process for a product can be described as a series of alternating analyses and syntheses (Suh 1990) while the product proceeds on its way from idea to the moment of selling. But, if we discuss the object of a value development process, we have to follow the product still further, into the hands of its buyer until the day it is used up.

The potential value being realized

Up to the instant of selling, the value added to the product, step by step, must be seen as a potential value. Once the product has been bought, its value is being realized by its buyer or user, instantly or gradually, until it is consumed.

The supplier creates a potential value, which is not realized until the product is sold and taken into use.

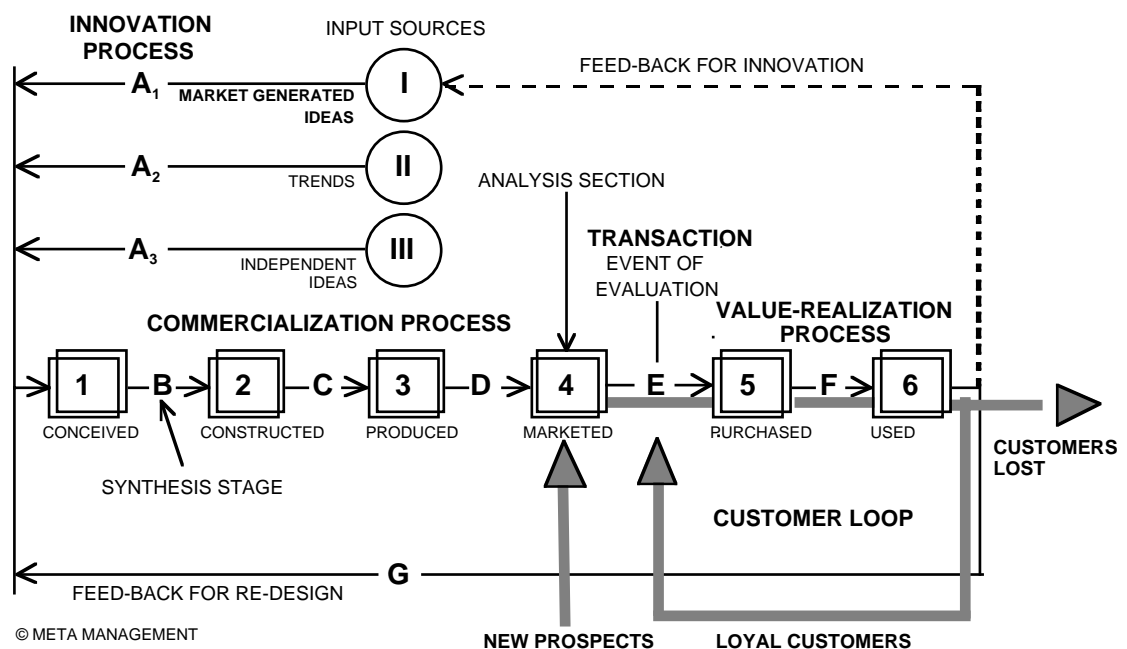
The development process of a product has always been, more or less, performed with customer benefits in mind. No manufacturer has probably ever started the development process without any reference to a market. The process suggested here, is based on the assumption, that the supplier is anxious to create a product as close to the buyer's needs as possible. It is also based on the assumption that the supplier is anxious to get as high a leverage as possible on his investments when creating the customer perceived value in his products. Consequently:

Every step in the development of the product, from "Conception" to "Product in Use," could and should be described and analyzed alternately in two ways: as the Supplier's Product and the Buyer's Product.

Development and production in parallel

The product is ready to be sold only when it is perceivable in its physical form and in the form of a metaproduct, which is a potential product value to the buyer in its own right. The two products have to be developed and produced in parallel, much along the lines of "concurrent engineering". The physical product has been manufactured, and distributed to the point of sale. An essential part of the "production" of the metaproduct has emerged from the application of industrial and engineering design, the designing of sales literature, the advertisements and press releases, etc., and realization is accomplished via their use in the communications process with the target group.

In the sales transaction the product is exchanged for money. At this stage, the value of the product is still not fully realized, as the product cannot be considered fully exploited until it is fully used up (which may take anywhere from a second to a human life span - or more). Furthermore, the meta value of the product may change during its consumption, owing to its quality, after sales service, consequent changes over time of brand value or corporate image, etc. All of this affects the sales and value of new products in the perception of this and other buyers.



The product Value Process (Linn1996)

The development process before sale should be seen as the creation of a value potential, and the process from the sales transaction onwards as the realisation of the value, as perceived by the buyer/owner/user. How the product value develops during the time of use or ownership is decisive for repeat purchases and customer loyalty and for the way the user will influence the opinion of others (compare to the concept of Relation Marketing!).

The Customer Loop

The actual buyers are coming into the process at the Marketing stage. The meaning of it is that they become well aware of the product or brand, and thus are recruited to the evaluating audience. As members of this target group they are also potential buyers of the branded product, being aware of its meta value.

After buying the product the actual consumers, owners or users will realize its value. Being satisfied in the "product used" stage, they will be apt to buy the product again (repeat business). In doing so, they enter the "Customer Loop" of the Product Value Process. After completing the loop several times they are defined as "loyal customers". [Customer = one that buys from or patronises a business, especially on a regular basis. (Webster's New Encyclopedic Dictionary 1993)]. Non-satisfied customers leave the Loop or never complete it.

The Customer Loop clearly shows the area of exerting "relation marketing" (Gummesson 1995) and also serves to illustrate the cost of attracting new prospects in comparison to keeping old customers in the Loop.

The complete Product Value Process

The Product Value Process thus contains several input sources for new product development (see fig.):

- I Suggestions and demands from the market
- II Trends perceived in the market
- III Independently emerging ideas – innovations

The following steps outline how the enterprise transforms those inputs into descriptions of products to be conceived, constructed, produced, marketed, sold, put to use, and consumed. The boxes in the figure correspond to analysis steps, while the arrows are synthesis processes. The contents of the boxes may be seen as descriptions of what is demanded at each stage of development from the product, formulated according to the structure of both sides of the Transaction Model – the supplier's product as well as the buyer's product. We thus obtain six (or actually twelve) product formulations. The figures 1 – 6 refer to the product in each existence or development phase.

Between them we obtain a number of quality spans, indicated by the letters A – F. They describe the transition between the phases, its efficiency and thus the respective sources of costs for development and quality during the total life cycle of the product:

The Product Value Process demonstrates value development with a continuous model. The gaps shown, particularly those between people in various roles and functions, must be bridged to accomplish qualitatively good results along with the continuous development of products and their values. Otherwise quality deficiencies will appear, which may be seen as low efficiency or lack of proper communication over some gap.

The deficiencies accumulate with each step for a total quality deficiency as compared to the vision of the originator and the user's product. Also, actions taken at various steps can lessen the product's value significantly or signal incorrect product values. The result will be confidence crises, loss of customer loyalty, loss of competitiveness and a weakened market position, ending up in difficulties in price-setting, profit opportunities and loss of market share.