Standing on the Shoulders of Galbraith: From Managed Markets to Corporate-Guided Markets

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Abstract

This paper builds upon the audacious insights of J.K. Galbraith (1999; 1972) with respect to managed markets and the management of specific demand. The paper begins by outlining the definition of relative abundance and the concept of a system of abundance. The dominant threat to the system of abundance is under-consumption by the people of plenty and an institution of marketing spontaneously emerges to counter this threat. Next the paper sets out Galbraith's audacious analysis of managed markets that are applicable to the system of abundance. Galbraith's approach marks a distinct break with the mainstream frame of reference of markets influenced by an invisible hand. The paper proceeds to evaluate the Galbraithian approach, highlighting some important limitations. Finally the paper introduces the new concept of corporate-guided markets for branded products. This is the general market form in the system of abundance. The concept of corporate-guided markets seeks to refine and develop Galbraith's analysis; most importantly it fully incorporates the role played by the institution of marketing. Put another way, the insights contained in this paper are the result of standing on the shoulders of an economic giant – J.K. Galbraith

a) Introduction

In the system of abundance there are identifiable drivers and constraints on consumption spending by the people of plenty. The institution of marketing works to amplify the drivers of spending and relax the constraints. The institution does this to ensure that consumer spending – in value and volume terms - rises at a rate sufficient to utilise the ever-expanding capacities of corporations to produce. All of this has profound implications for the way in which markets work, which this paper seeks to address.

The essence of all markets is a set of arrangements by which buyers and sellers are connected together in order to conduct transactions. The sellers provide the products and the buyers provide the money. Beyond this, the market form can vary quite significantly. This paper outlines the dominant market form in the system of abundance, through which the vast majority of everyday transactions are conducted – that of *corporate-guided markets for branded products*.

This concept builds upon the key insights of J.K. Galbraith with respect to a distinctive market form which he terms a *managed market*. This Galbraithian managed market form is actually a special case of a corporate-guided market, applicable to certain very high prestige branded products. Galbraith in turn breaks free for the mainstream frame of reference of the *simple market mechanism* based on the workings of the invisible hand.

Section b examines the idea of a system of abundance and the critical role of the institution of marketing. Section c examines Galbraith's audacious analysis of the management of specific demand by corporations on managed markets. Galbraith claims that corporations – or rather their techno-structures – exert a high degree of "control" over managed markets. This section concludes with an evaluation of the Galbraithian frame of reference, finding it insightful but deficient in a number respects. Section d sets out in detail the new idea of corporate-guided markets for branded products – the general market form in the system of abundance. This new concept refines and improves the Galbraithian analysis, fully integrating the role of institution of marketing on such markets.

b) The System of Abundance

Defining Abundance

In the *Affluent Society* John Kenneth Galbraith threw down a challenge to the economics profession. Surrounded by the generalised prosperity of North America in the 1950's Galbraith called on economists to face up to "the economics of affluence of the world in which we live" (Galbraith, 1999, p. 131). Galbraith's challenge has sadly been ignored by economists for the last sixty years. This paper seeks to contribute parts of the answer to the Galbraithian challenge. In other words it begins the task of constructing a different type of economics – the economics of abundance.

All beginnings are difficult, especially when introducing the concept of *abundance*. For use of this term questions the most powerful shibboleth within the modernist economics profession – the *conventional wisdom of universal scarcity* (Robbins, 1935; Xenos, 1989; Daoud, 2007). However to address the Galbraithian challenge it is necessary to move beyond the Robbinsian paradigm and bring abundance back into the acceptable lexicon of economics. In doing so a most intriguing question needs to be addressed - how can abundance be defined? On reflection though, the answer is really quite simple.[1]

The ultimate anchor for making inter-system comparisons is the system of scarcity and the people of poverty – those that have the least. From the perspective of the people of poverty it is obvious that the two other peoples – the peoples of sufficiency and plenty – experience very different economic conditions. The second anchor is the people of sufficiency – those with just enough to get by. From their perspective it is obvious that they experience somewhat better material conditions than those of the people of poverty; however it is equally clear that the people of plenty enjoy vastly better economic conditions. Consequently in this paper abundance is defined *relative* to the anchors of the systems of scarcity and sufficiency. Put another way, the definition applied is one *of relative rather than absolute abundance*. This mirrors the mainstream definition of *relative* scarcity – that is a constraint on resources relative to the scale of wants (or demand?). The main problem with the mainstream frame of reference is that it *universalises* scarcity. All

peoples, rich, poor and those in between, are assumed to face the same problem. Clearly this perspective masks the massive scale of global inequality. It also distracts attention away from the very great differences in the economic dimension of the human condition experienced by different peoples.[2] However by applying the idea of relative abundance the *differences* in the economic dimension of the human condition become obvious. This requires a new mindset that puts aside the fixation with what people *lack.* It concentrates on what people *have,* why it is *unequally* distributed, and the *different* reasons why people spend. In this context the experiences of the people of plenty can be properly analysed.

Paradoxically, to thoroughly investigate differences requires that similarities in the human condition are also examined. In short, to properly delineate *inter-group* differences experienced by distinctive categories of peoples it is necessary to clarify the *intra-group* similarities within each specific category. This means that the ultimate purpose of economics is *to investigate the differences, and similarities, in the economic dimension of the human condition.* As a subset of this the economics of abundance focuses upon *the economic dimension of the people of plenty; in this context the human condition of the people of plenty can be properly analysed*.

Scarcity and Sufficiency

In the world today roughly 70% of the global population of 6.5 billion people experience the systems of sufficiency and scarcity. Those who endure the system of scarcity can rightly be called the *people of poverty*, where the basic necessities of life are meagre. There are nearly 2 billion people who can be categorised as the people of poverty. They include the marginalised rural people on the least fertile land of the Third World (husbanded mostly older men, women and children); the refugees from various natural and man-made catastrophes; and the poorest inhabitants of the gigantic shantytowns that surround the mega-cities of the Third World (Latouche, 1993).

A second category of the global population is the roughly 40% - or 2.5 billion people - who experience what can be called a system of material sufficiency. From the perspective of the people of poverty the people who live in the system of sufficiency experience distinctly better material conditions. The *people of sufficiency* have moved beyond the shantytowns or have slightly

larger and more fertile farms. They are however not always spatially divorced from the people of poverty. Often they will live cheek by jowl with each other or perhaps a few streets away.

The System of Abundance

Finally we come to the third portion of the global population, the roughly 30% (or about 2 billion people) who experience a system of abundance – the *people of plenty* (Potter, 1973). From the perspective of both the people of sufficiency and, most importantly, the people of poverty it is self- evident that the people of plenty enjoy vastly superior quantitative and qualitative conditions; that is the people of plenty have a lot more of nearly everything. The boundaries of the people of plenty do not recognise national borders or city limits.[3] The people of plenty stretch across all the social classes of the First World and the vast majority of the Second World. It even includes an affluent minority in the Third World. Put another way, the people of plenty are the fortunate ones of the global community living in a world saturated by branded products.

This is no surprise, for the system of abundance has solved the economic problem. It has massive productive capabilities to produce a rich cornucopia of products, unparalleled in human history. The system of abundance achieves this productive potential by utilising the most up to date technology, the most advanced equipment, and the most highly educated workers. Its retail sector – both bricks and mortar stores and internet sites – has extremely extensive and sophisticated channels of distributing products to consumers 24/7. Moreover the system of abundance encourages entrepreneurial corporations to perpetually create new products, better techniques of production and new organisational models, and to invest in new improved equipment, to further extend productive capacity.

The very success of the system of abundance means that the most affluent two billion people enjoy consumer lifestyles that are quantitatively and qualitatively more prosperous than those experienced by the rest of the global population. There is however extensive inequality in the share of abundance enjoyed by the people of plenty. The "richest" members of this 30% have what can only be described as a life of extravagant opulence – grand homes,

often multiple homes in different countries, palatial grounds, the most expensive couture, lavish holidays, impressive personalised jets and majestic private yachts with personalised submarines (Frank, 2008). They even have personalised staff – the "people" who act as servants, dieticians, chefs, bodyguards, fitness trainers, public relations specialists, lawyers, and the like. This contrasts starkly with the "poorer" members of the 30% who may be on state welfare payments, but who still enjoy access to more than sufficient food, decent housing, free education and health care, a variety of possessions, the occasional treat, and even a family holiday. The vast majority of the people of plenty live in between these two extremes in what Galbraith (1992) calls a *culture of contentment*. In this contented affluence the majority think that their unequal share of abundance is just based on their own "personal virtue, intelligence and effort" (ibid, p 18), and continued inequality is tolerated.

The inequality experienced within the people of plenty is however nothing compared to the inequalities between the richest and poorest of the global population. As Latouche notes it's as if the peoples of poverty and plenty live on different planets. Indeed in global terms, the poorer members of the people of plenty are some of the richer members of world community.

The defining characteristic of the system of abundance over the long run is economic growth; aggregate output tends always to move upwards, though unevenly and with occasional recessions of varying severity and duration. This growth requires that aggregate expenditure within the system grows, driven on by its dominant category – consumer spending. Hence the system relies on ever-rising consumption spending by the people of plenty to fuel growth. Potter is, however, one of the first to recognise the distinctive nature of the economic problem in the system of abundance. For once the problem of production is solved the greatest threat to the system of abundance is *under-consumptionism* by the people of plenty. That is a situation where *the most affluent consumers in the world, for a variety of reasons, slow down their rate of consumption relative to the potential growth of productive capacity.* The system of abundance must counter under-consumptionism and Potter correctly diagnoses the cure. He explains that when:

> *"the productive capacity can supply new kinds of goods faster than society in the mass learns to crave these goods or regards them as necessities…the imperative must fall upon consumption, and society must be adjusted to a new set of drives and values in which* ***consumption is paramount****."*
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> [Potter, 1973, p 173; emphasis added]

Potter is the first to recognise that the system of abundance grows and prospers because it *spontaneously* generates, through the profit-seeking actions of business, the appropriate *institutional* arrangement which gives priority to consumption. In this paper the institutional arrangement is called *the institution of marketing*.[4] The ultimate purpose of this institution is to foster and promote ever-greater consumption spending by the people of plenty. But precisely what is the institution of marketing?

The institution of marketing is a gigantic, global economic network of diverse groupings whose overarching purpose is to give priority to spending. The institution straddles all sectors of an economy. It embraces a multitude of corporations, media, agencies and talented professionals.[5] Its *output* is the communication of a glut of commercial messages to buyers that share a common purpose: they are *intended to persuade buyers to spend more, both in volume and value terms*.

One straight-forward way of getting to grips with the idea of an institution of marketing is to define its boundaries in terms of what it does. Broadly the boundaries of the institution relate to four main areas of activity:

- the products and their brand images;
- the active persuaders and the mass media
- the managed market-place;
- brand management

The four areas of activity will be examined in greater detail in section d below.

c) The Dependence Effect and Managed Markets

The starting point for Galbraith (1999; 1972) is that the most affluent global citizens no longer live in a system of scarcity but have moved on to a higher stage of development.[6] Mirroring the ideas of Potter, Galbraith argues that in

affluent societies corporations must persuade consumers to continue buying even though their basic needs are fulfilled. Luckily for the capitalist system "the further a man is removed from physical need the more open he is to persuasion - or management - as to what he buys" (Galbraith, 1972, p.202). This persuasion is enacted by what Galbraith calls the *institutions of modern advertising and salesmanship,* exploiting the wondrous opportunities afforded by the mass media of television. Moreover ever-higher production levels require corporations to constantly contrive new more expensive consumer wants. Consumer demand therefore becomes dependent on the need to generate extra production, and corporations manufacture consumer wants much like they manufacture products. Galbraith calls this the *dependence effect*.

Galbraith argues that each corporation actively seeks to manage the specific consumer demand for its product for two main reasons. First, and most importantly, corporations need to stimulate extra sales in order to utilise the ever-expanding capacity to provide products. For Galbraith however there is a second often over-looked reason. Managing the demand for products allows the corporation to free itself from the vagaries of the unplanned market; it gives the corporation *greater certainty of outcome* with respect to its sales revenues.

The management of specific demand by a corporation focuses on both the number of units sold and the price per unit. Certainly each corporation wants to maximise the units sold. But great efforts are also made by corporations to manage the prices they charge on consumer product markets. That is a corporation sets the price it wishes to charge and then uses marketing techniques to persuade consumers to buy large volumes of the product at that price. The consequence of all these corporate efforts to manage the specific demand for products is that it shifts "the locus of decision in the purchase of goods from the consumer where it is beyond control to the firm where it is subject to control" (Galbraith, 1972, p. 206).

This leaves one question unresolved. Who within the corporation is responsible for managing the demand for products? According to Galbraith this role is undertaken by the *techno-structure* within a corporation. He defines the techno-structure as "all who bring specialised knowledge, talent, or

experience to group decision-making. [The techno-structure] is the guiding intelligence of the enterprise" (*ibid.*, p. 71). The techno-structure of a corporation makes corporate decisions by pooling information from various specialised sources. Perhaps the best illustration of a techno-structure is in the previously noted multi-disciplinary activity of brand management – requiring experts from all around a corporation to come together to produce consistent commercial messages about a product range.

Of course Galbraith admits that corporations don't always get the management of consumer demand right. This means that there will be times when consumer sovereignty will surprise or disappoint corporate sales expectations. Consumer sovereignty therefore does not completely evaporate even in markets subject to such corporate control. However even when consumers display their discretionary muscle Galbraith claims "it is the everyday assumption of the industrial system that, if sales are slipping, a new selling formula can be found that will correct the situation" (*ibid.* p. 207).

The corporate effort to stimulate the demand to match planned for increases in production is what Galbraith calls *managing the market*. In the system of abundance Galbraith argues that managed markets constitute the main market form. Armed with the idea of a managed market Galbraith rejects the conception of buyer sovereignty and the accepted sequence. In its place Galbraith sets out a *revised sequence* for markets where the central role is played by the techno-structures of corporations. The techno-structure is the active agent in managed markets; it decides which products to provide; it decides how to manage the specific demand for these products; and it decides the managed prices to be charged in the market-place.

Galbraith's innovative ideas about managed markets and prices liberate one from the mainstream mindset and the simple market mechanism. It is possible to appreciate that a "market" can take different forms. Moreover in the system of abundance it becomes obvious that market forces working under the influence of the invisible hand are the exception rather than the rule.

Yet the Galbraithian analysis has its limitations. Galbraith places great emphasis on the pivotal role and power of the techno-structure. The techno-structure of a corporation, Galbraith claims, designs sales campaigns to

persuade consumers to buy products at the prices set by the techno-structure. In this way the techno-structure manages markets in order to stimulate sales and reduce the uncertainty of outcome of corporate revenues. This argument is easily portrayed as a corporate conspiracy with consumers playing the role of passive manipulated victims. Galbraith's loose language about corporate "control", "persuasive manipulation" and "contrived wants" lends credence to such an interpretation. Affluent consumers are however not passive victims. Consumers must be persuaded to buy, and there are numerous examples where they remain resolutely unconvinced about a specific branded product or its price (Haig, 2003). But it is not just affluent consumers that compromise corporate efforts to control markets. It is further complicated by the actions of rival corporations, with rival techno-structures, seeking to stimulate sales of their brand products and to accumulate a greater share of sales within a product class? With rivals there must be limits on the ability of one corporation to control "its" market. Put simply Galbraith's arguments exaggerate the scope for corporate management of markets.

The second limitation of Galbraith's analysis is that it contains no theory of abundant consumption. There is no sense that people are wanting animals or that there are multifaceted drivers of spending and constraints upon such spending. Without such an analysis Galbraith is fated to underplay the role of consumers in the market.

The last, and perhaps the greatest, limitation of Galbraith's analysis is his failure to recognise the central role that the institution of marketing plays in corporate efforts to stimulate market sales. Galbraith admittedly makes passing reference to the institutions of advertising and salesmanship, but this is hardly enough. There is no mention of the institution of marketing whose overarching purpose is to give priority to consumption. There is, moreover, little consideration given to how the institution communicates a glut of commercial messages to buyers that all share a common purpose: the intention to persuade buyers to spend more. Finally, Galbraith's analysis has no appreciation of how corporations work with and within the institution of marketing in order to both amplify the drivers of abundant spending and relax the constraints.

Galbraith is however right to reject the general applicability of the simple market mechanism in the system of abundance. He is also correct to reject the accepted sequence that pedals the myth that sellers and markets act as servants of buyer wants. Finally, his judgement is sound when he argues that the established economic conception of a market must be reconstituted to offer genuine insights about how markets work in the system of abundance. Galbraith is then a decorated member of that:

> *"brave army of heretics…who, following their intuitions, have preferred to see the truth obscurely and imperfectly rather than maintain error, reached indeed with clearness and consistency and by easy logic but on hypotheses inappropriate to the facts."*
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> [Keynes, 2007, p 371]

Standing on the shoulders of Galbraith, therefore, it is possible to set out a new conception of a general market form that applies in the system of abundance. This is the subject of the next section.

d) Corporate-Guided Markets

The worthwhile insights of Galbraith can be built upon and developed. The result is a new frame of reference that can be called a *corporate-guided market for a branded product*. This is the dominant market form in the system of abundance; it is through such markets that the vast majority of aggregate spending is conducted.

To properly appreciate how this market form works it is useful to consider the emergence of a new market for a specific branded product provided by a particular corporation. It is essential to understand that *markets for branded products are always instigated by corporations*, working with and within the institution of marketing, in order to generate ever-greater volumes of mutually beneficial exchange. So the analysis always starts from the corporate perspective of brand managers who intend to create a new market.

The Branded Product and its Image

To instigate a new market, the corporation starts by designing a product with distinctive features with the intention of selling it to a large body of customers – the target consumers. For a tangible product, design focuses on things like

shape, tactility, colour, size, movement, even style; for intangible products the focus is on designing attractive service-based features, such as distinctive product content.

Once the corporation is happy with product design it must create the output capacity ready to provide the product to the target market. The planned capacity limit always exceeds the corporation's expectation about product demand i.e. the assumed sales volume. This *planned* spare capacity allows the corporation some flexibility of response if demand for the new product is unexpectedly high; the last thing a corporation wants is to be unable to match the demand for a very popular product, although this does occasionally happen. To create the planned for capacity involves the corporation in heavy outlays on an array of inputs needed to provide the output. In many cases a corporation finances these plans by borrowing working capital from the banking sector.

Next the brand managers within the corporation have to name, or brand, the product. The name will be attached to the product with the intention of both attracting the attention of potential buyers and to make the product more saleable.[7] In the same way a corporation makes decisions about the product packaging, logo, symbol and trademark. Finally the corporation must devise a brand image – containing the key, salient selling points – intended to make the product distinctive, attractive, and marketable. It is extremely important for marketing purposes, and ultimately sales, to associate the correct image with the designed product. To make sure this happens brand managers often engage talented branding professionals from within the institution of marketing.

Active Persuaders and the Media

Good design, productive capacity and an attractive brand image are the essential prerequisites for a corporate-guided market. Next, the corporate brand managers and the institution must aggressively ratchet up demand; more precisely efforts are made to amplify the drivers of spending on the product and relax the constraints on such spending.[8] A corporation will engage the active persuaders to design and communicate messages consistent with the intended brand image, and rent space in various mass media to disseminate the messages.

Paid for advertisers will organise a campaign, create imaginative ways of communicating the brand image and assess the results. This can be supplemented by PR induced free publicity, often through the reportage of pseudo events.[9] But central to the marketing of a regional, national or global brand is the choice of celebrity endorser. When well-chosen, the celebrity humanises the commercial messages, communicates attributes consistent with the brand image, and encourages consumer emulation through spending. What is more, the corporate brand managers must engage various mass media to disseminate commercial messages to the target consumers. In doing this great attention is paid to choosing a medium or media that that reinforce the brand image and the messaging of the active persuaders.

Managed Market-place

A central element of a corporate-guided market for a branded product is the environment in which it is sold – the managed market-place. The store-based managed market-place is very evidently an environment guided by the visible corporate hand, and is the location where the persuasive efforts of brand managers reach their zenith. It is also the place where corporations – those who provide the product and those who own the stores - interact together with the shared purpose of stimulating extra spending by buyers.

The corporate brand managers, working with retail specialists, decide how the branded product will be distributed within the managed market-place – which stores, what location in the store, which shopping mall etc? These decisions are crucial to the success of any corporate-guided market. There are serious implications in terms of product sales when brand managers fail to get the product sufficiently widely distributed or distributed in stores with a level of prestige inconsistent with the intended brand image.

Porous Market Boundaries

It is common for a corporation to offer for sale a range of products under a given brand name – a so-called brand extension (Aaker, 1996).[10] This means that the boundaries of a market for a specific product are influenced by the markets for other *same brand* products provided by the corporation. Products provided under the same brand name can be thought of as complementary products. An exemplar of this is a same brand cosmetic range covering things like mascara, lipsticks, face cream, shower gel etc. Each of the

complementary markets for these same brand products work in step with each other; the boundaries between these complementary markets are extremely porous and what affects one market influences them all.

In addition the same corporation, in order to broaden its market, can offer *differently branded* products which are substitutes for each other. The most obvious exemplars of this trend are the suppliers of breakfast cereals and confectionary products. They operate a vast array of competing branded product markets within the same product class. Once again this means that the boundaries between the market for any specific branded product provided by a corporation and its substitute branded product markets are very porous; what affects one affects them all.

One response to introducing a new product may be that the corporation decides to close down a market for an “older” product line – ceasing to supply it. More commonly it will require the corporation to consider how the new product affects its other branded product markets, perhaps requiring the revamping of its product range. Whatever the response this is yet another example of how the boundaries for any one branded product market are very porous and subject to perpetual change.

From a corporate perspective all this means that no one market for a specific branded product can be effectively managed in isolation from its other product markets. Indeed the most successful corporations think in terms of a *portfolio of branded products*, covering a variety of product markets, managed collectively to maximise corporate profits.

In this context corporations must make judgements about the complex opportunity costs of allocating resources to different branded products within its portfolio. The resources available to a corporation at any point in time are constrained, which means it must make choices: which products should be differentiated and developed and which should not; which product lines should be extended and which closed down; and which potential new product classes should be exploited and which can be safely disregarded. The profit-seeking corporation appreciates that once resources are allocated there is a trade-off, an opportunity forgone, and it acts to minimise these implicit costs.

The power of any one corporation on a corporate-guided market is, of course, conditioned by its rivals. These rival corporations, working with and within the

institution of marketing, are also seeking to guide buyers towards more purchases. The rivals do this by offering their own distinctive branded products with differentiated brand images justifying a variety of proposed prices.

Each corporation within a product class is constantly seeking to outmanoeuvre its rivals, and responding to efforts by rivals to outmanoeuvre it. In addition entrepreneurial rivals are always designing new novel products associated with imaginatively new brand images that transform the competitive environment, guiding consumers into new spending patterns; this can even lead to the creation of an entirely new product class and the opening up of many new markets. All of this means that, once again, the boundary of any market for a specific branded product is porous, but this time because of the actions of rival corporations operating through their own distinctive branded product markets.[11]

Proposed Prices

The corporate hand is very visible when determining the price to be charged for a specific branded product.[12] The corporation decides the proposed price prior to the product being launched into the managed market-place. To reach this judgement the corporation must formulate a guess-estimate (based on realistic assumptions) of the likely volume of sales for the new product in normal circumstances. This *assumed sales volume* is always lower than the planned maximum capacity limit for the new product, for reasons already explained.[13] Next the corporation calculates the explicit costs per unit of providing the assumed volume of sales. Finally it adds on a mark-up – a profit margin - per unit, and the result is the proposed price.

This proposed price might however be subject to amendment at the margin for three reasons. First given the need to be competitive, the corporation may need to modify the proposed price taking into account the prices already charged by rival corporations for similar products. Second, the proposed price can be modified so that it is consistent with the pricing structure of the existing product ranges provided by the corporation. Lastly, the price chosen may be slightly revised given the known psychological barriers consumers have for product prices.[14]

When launched and available in the managed market-place, a corporation allows no room for bargaining about the price between buyer and seller. The buyer either pays the proposed price for the product or does without. There are three dominant reasons why the corporation is resistant to amending the proposed price. First, the proposed price is a key part of the brand image of a product. It is for example little use trying to sell a prestige product at a bargain basement price, as the latter communicates a message inconsistent with the rest of the brand image. Secondly the corporation is interested in stimulating sales revenue – and revenue is hugely dependent on the price charged per unit. Raising or lowering product prices has implications for the assumed sales volume – depending on the price elasticity of demand for the product. Thirdly, as noted above, the boundaries of a market for a specific branded product are extremely porous. Changing the proposed price for any one product has sales implications for all the other products – both complements and substitutes - offered by that corporation.

On corporate guided-markets therefore it is usual for the corporation to set a product price and persuade consumers to buy it in large volumes at that price. When a corporation achieves the assumed sales volume for a product at the proposed price then, using the terminology of Keynes, its short term expectation is fulfilled; that is the expected revenues equal the realised revenues (Keynes, 2007; Sheehan, 2009).

The main exception to the rule of keeping the proposed price steady occurs when corporations want to "move" slow-selling or seasonal stock. Then brand managers will use devices like price discounts, seasonal sales and special offers, appropriately framed, to promote sales.[15] Corporations are however more innovative in the short term pricing strategies for new products. There are two exemplars of such strategies. The first involves giving away samples of the new product free of charge during a short period after its launch. Estee Lauder did this with the launch of her most successful branded product – *Youth Dew*; she gave away free samples to overcome customer resistance to trying a new perfume, a strategy that was a great success (Koehn, 2001). Conversely with new high-tech electronic products corporations will propose prices which are initially very high. For there are identifiable groups of buyers called "early adopters" who are keen to conspicuously consume and lead the

market. Setting initially high prices to fully exploit the early adopter spending patterns – thereby maximising revenues - is also called “skimming the cream” (Harris, 2001). Once spending by the early adopters is exhausted corporations lower proposed prices to broaden the customer base for the product.

Target Consumers

Markets of course are two-sided. Demand for a branded product might be guided by a corporation but it can never be controlled. Actually the determinants of market demand are rather complex and multi-faceted. Consumer demand is primarily governed socialised, subjective, cognitive and monetary influences. And under each of these headings there are a range of drivers and constraints on spending decisions.

When affluent consumers make a decision about purchasing a specific branded product it will almost always be based on more than one motivation; usually many drivers and constraints will simultaneously influence any one spending decision. Therefore all spending decisions involve a matrix of socialised, subjective, cognitive and monetary influences and a combination of different drivers and constraints. In general the more numerous and reinforcing the drivers (constraints), the greater (less) the likelihood that a consumer will commit to a specific purchase decision and the higher (lower) the price that he/she will be prepared to pay for the branded product.

But a corporation is not overly concerned about any single decision made by one affluent consumer. What interests brand managers is a large body of consumers who might be persuaded to buy the same branded product. Hence a corporation is concerned to attract a large numbers of target consumers who share similar drivers of spending and/or have in common the same types of spending constraints. If such consumers can be persuaded to purchase the same product the results are high turnover and large profits.

As noted earlier the *raison d’être* of the institution of marketing is to amplify the drivers of spending and relax the constraints. And the institution, working with and within corporations, is remarkably successful at ratcheting up spending - in volume and value terms - on the markets for specific products. Ultimately the success is due to large numbers of consumers being prepared

to accept the framing of mutually beneficial exchange proposed by the institution and corporate brand managers.

Yet no brand managers or talented professionals in the institution of marketing can ever convince large numbers of consumers to purchase, and repeat purchase, a product they do not want. In this sense the target consumers are the ultimate arbiters of corporate success in instigating a new market for a branded product. On the other hand the most successful corporations are those that get inside the skin of their customers, and see things from the consumers' point of view. Put another way these corporations have a profound sense of what drives and constrains customer spending patterns, and can therefore guide buyers more effectively towards mutually beneficial exchange on corporate-guided markets.

One further crucial point must be made about a corporate-guided market for a branded product. In this market form *consumers as a whole are never manipulated victims*. One powerful criticism of some of Galbraith's musings is that he implies consumers are passive victims of corporate manipulation. Groups of reasoning and informed consumers actually enjoy a degree of sovereignty when making choices on a specific market. Commercial messages about the brand image of a product are only effective when large numbers of consumers engage with the messages and decode the meanings correctly. Buyers are capable of accepting or rejecting the correctly decoded corporate persuasion as they wish. What is more, consumers can decode messages about the branded product in ways corporations do not intend. Groups of consumers can propose their own shared meanings to associate with a specific branded product – reframing the basis for mutually beneficial exchange - causing the corporation to respond to their collective decisions. Furthermore, if sufficiently large numbers of consumers are not persuaded to buy a sufficient volume of a specific branded product this can force a corporation to withdraw it from sale. Indeed it is quite common for this to happen, and a surprising large number of new branded products launched are subsequently withdrawn. Finally buyers can accept or reject the prices corporations propose to charge for products. Buyers usually have a choice between rival products with different proposed prices, although if they reject all the prices available they end up purchasing nothing.

It must, however, be noted that the vast majority of affluent consumers are quite content to accept the guidance of a corporation and its framing of mutually beneficial exchange. Affluent consumers faced with an abundance of choice welcome corporate assistance in providing distinctive brand images and an array of informative commercial messages, and for determining the proposed prices. All this greatly simplify the choices to be made by the people of plenty.

A final aspect of buyer sovereignty that is often overlooked is that consumers view markets through a different prism from that of corporations. The most obvious example occurs is in the managed market-place. For a corporation the managed market-place is the "business end" of its activities; it is where sales occur and profits are realised. It is therefore essential that the corporation compete with its rivals to gain advantageous locations and attention-seeking displays for its products within the planned topography. Consumers by contrast perceive the managed market-place as a vast cornucopia of competing products, attractive counters and displays, and persuasive messages. This market-place can be explored or ignored; choices can be made or avoided; products may be purchased or not.

Moreover, consumers, especially in a group setting, will perceive specific markets for branded products in a wider social-cultural context. Affluent consumers are keen to devise patterns of consumption that communicate social ties and mutual obligations (without committing faux pas), inter-group separateness or intra-group sameness (Katona, 1960; Tajfel, 1981; McCracken, 1990; Veblen 1994 and 2005; Douglas and Isherwood, 1996). What is more, the choice of a specific pattern of consumption allows affluent consumers to communicate evolving subjective senses of self-identity to others (Bauman, 1998). This means that the purchase of a specific brand of product must go together, be consistent with, with the consumption of branded products in other product classes – to form what McCracken calls Diderot unities. Consequently groups of consumers view as porous the boundaries between markets for branded products that make up an overall pattern of consumption; a change in spending in one market influencing spending in other markets.

In addition, in a hot culture consumers will be perpetually responding to the introduction of new novel products with new distinctive brand images. The most successful new products will reconfigure patterns of consumption and cause demand-side disturbances on related branded product markets. Patterns of consumption of branded products are therefore subject to change and evolution. This consumer activity keeps the markets for branded products in a state of constant flux and increases corporate uncertainty about sales revenues.

Market Forces – Excess Demand and Supply

With competitive rivals, buyer sovereignty and changing patterns of consumption, no corporation "controls" of the market for a branded product. The resulting uncertainty of outcome means that in different circumstances the demand for a branded product can either exceed or fall below corporate expectations. Put another way a corporation can face either *excess demand or excess supply* for a specific branded product.

An excess demand occurs when say a new marketing campaign proves so successful in stimulating demand that it exceeds the corporation's productive capacity limit for the product. Put another way the corporation's short term expectation is incorrect as the revenue that potentially be realised from the product is greater than the expected revenue. The best exemplar of this was Nike's launch of a new trainer with Michael "Magic" Johnson as the celebrity endorser. The paid for advertising stimulated a demand for the product which massively exceeded Nike's expectations. In response to this excess demand Nike did not increase the proposed price for the product. Rather it energetically sought to match the unexpected demand by rapidly increasing productive capacity (Goldman and Papson, 1998).

Conversely an excess supply emerges when the product's assumed sales volume is not achieved and the corporation is left with significant unused productive capacity. Once again the corporation's short term expectation is incorrect, but this time because the realised revenue from the product is less than expected revenue. Perhaps the best example of excess supply due to a "brand failure" occurred with the launch by Ford in 1957 of the Ford Edsel. "In the minds of the public, the car simply didn't live up to the hype" (Haig, 2003, p21), and sales volume never approached corporate expectations. In 1957 it

sold an uninspiring 64000 units, by 1960 sales fell below 2900. In response to this excess supply Ford did not lower proposed prices, but halted Edsel production at the end of 1959.

These two examples illustrate an important characteristic of corporate-guided markets. Such markets do not respond to excess demand and supply in the same ways as predicted by the simple market mechanism. The latter suggests that market forces cause the product price to be changed, thereby prompting the revision of buyer and seller plans. Actually on corporate-guided markets for branded products, where the imperative is to ratchet up sales, corporations respond *by varying the quantity supplied*.

Therefore when there is an excess demand for a specific branded product a corporation will respond by seeking to increase the supply of the product in order to meet the shortage. This is the most profitable way for a corporation to respond as it will generate significantly greater sales revenues. The corporation will however keep the price of the specific branded product steady; if it were raise the product price this will simply act to contract demand, which makes no sense for a profit seeking corporation. By contrast when a persistent excess supply occurs a corporation will cease supplying the product altogether. Once again the corporation will not respond by changing the product price. Reducing the price will simply increase consumers concerns about the possible defective "quality" of the product being offered, leading to even lower demand (Akerlof, 1970, Machlup, 1984). The corporation cuts its losses on the "failed" product and reallocates resources to the provision of more popular product lines – either existing or entirely new.

Overview

It can now be appreciated that a corporate-guided market is a perpetually evolving construct, with porous boundaries and flexible configurations, where the only constant is change. Put another way, this market form is an evolutionary process, a never ending work in progress. Over time the changes are profound enough to destroy old markets completely and multiply the new markets that exist. Adaptable ever-changing corporate-guided markets clearly play a critical role in the growth of the system of abundance. Certainly these ever-changing markets are the most observable aspect of a hot consumer culture. [16]

Finally, it would be wrong to imply that all corporations display the same competence in guiding the markets for their products. Certainly the most successful corporations of high repute, with few serious rivals, are extremely competent in persuading its customers to buy prestigious products at the "premium" (i.e. very high) prices they propose. These markets for high prestige products sold at premium prices perhaps most closely resemble the managed markets Galbraith had in mind. If this is the case the Galbraithian concept of a managed market can be thought of as a special case of the more general form of corporate-guided markets. At the other end of the scale there are numerous examples of incompetent corporate guidance – so-called brand failures – where a corporation fails to persuade consumers to purchase products at the rate it expects. Even corporations with a track record of persuasive success can be guilty of such failures, as the example of the Ford Edsel ably demonstrates. In the middle are a mass of corporations who display competent guidance of their branded product markets, which although not outstanding is far better than mediocre.

Finally it is important to appreciate that without the audacious work of Galbraith the concept of corporate-guided markets could not have been properly specified. Although the corporate-guided market refines and develops Galbraith's original ideas, without the latter's broad shoulders the insights contained in this paper would be hidden from view.

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ENDNOTES

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[1] This issue of abundance is avoided by economists, or dismissed, following Robbins, as only applying to the next world. In this context an intriguing contribution by Gordon (1988) demonstrates that the scarcity paradigm applies to the conditions of the afterlife, meaning that even in Heaven there is no such thing as abundance as defined by Robbins. The scarcity postulate therefore effectively effaces abundance from the acceptable lexicon of mainstream economics.

[2] Xenos notes that embedded within mainstream economics is an assumption that "at some deep level individuals experience the world and react to it in the *same way*. In this manner, economics can be established universally as a dominant discourse applicable *to any society at any time*, so long as a scarcity situation can be determined." (Xenos, 1989, p. 72; my emphasis)

[3] Unlike Potter who restricted his category to citizens of North America.

[4] Potter refers to this institution as the *institution of advertising*. In this paper Potter's analysis has been revised and updated to make it more comprehensive.

[5] For completeness it should be noted that the institution of marketing also encourages additional spending by corporations, through business on business marketing; by the Government, through various forms of lobbying tactics and public relations efforts; and on contributions to charities and voluntary organisations. All are important sources of additional spending in an economy.

[6] The problem for mainstream economics, according to Galbraith, is that it has become becalmed in the paradigm of scarcity. Mainstreamers therefore apply the conventional wisdom of the simple market mechanism and the accepted sequence to circumstances in which they are no longer relevant. The problem Galbraith claims "is not one of original error but of obsolescence" (Galbraith, 1972, p 217).

[7] In terms of branding, brand managers that embark on new product development have a decision to make about product name. Should the new product be launched under a distinctive new brand name? Or should the

product be launched under the umbrella of an existing well-known brand that "endorses" the new product. Technically the new product becomes a sub-brand of the endorser brand (Aaker, 1996). Ultimately the decision depends on what will most stimulate sales. Either way the brand hierarchy of the corporations is developed – either widened with a new brand title, or deepened with a new sub-brand.

[8] For example, corporate brand managers, working with the active persuaders and the financial sector, perpetually offers buyers various forms of credit to relax the constraints on spending, especially on large money items.

[9] It is reckoned that target consumers judge PR induced messages to be roughly three times more credible that paid for adverts.

[10] A brand extension involves the introduction of new product, differentiated by its novel features, under the umbrella of an existing brand name.

[11] Buyers can easily shift between different branded product markets, especially when the costs of switching products are low.

[12] An often overlooked element of the proposed price is the ability of corporations to establish the terms and conditions of a transaction – the small print. The best exemplar of this occurs when purchasing insurance, where the contract is replete with technical terms and conditions. Moreover the corporation has the right to propose changes to the terms and conditions when it suits.

[13] If the assumed volume of sales is exceeded, and some unused capacity is activated, then that is so much the better for a corporation. The challenge occurs when sales exceed the maximum capacity limit. The corporation must then demonstrate entrepreneurial ability to increase capacity quickly. This pleasant "problem" is very much the exception to the rule.

[14] Sellers have long-since realised that buyers have *psychological barriers* with respect to prices. A buyer can say have a barrier to paying £5,000 for a second hand car or a barrier to paying £3 for a new CD. Corporations manage this demand by *psychological pricing* (Harris, 2001). They do this by setting the price for a second hand car at £4995 or the price of the new CD at £2.99. This is referred to as *non-linearity* in decision-making, by which a marginal

change in a variable can have a disproportionate influence on the decision made (Kahneman, 2000).

[15] Price discounting is a way of stimulating sales. The most common technique applied in the retail sector to move stock is the so-called "bogof" – buy one get one free. Though in times of recession, when people seek to make their incomes go further, straight price reductions become more prevalent. Corporations however must be careful when reducing price because buyers might think the product is a lemon. Corporations proposing new lower prices for products therefore frame such discounts in ways that are attractive to buyers – "best ever value", "sizzling summer deals", "fantastic products at amazing prices", and the like.

[16] When analysing corporate-guided markets for branded products it is unhelpful to apply an equilibrium method – either of a stationary or shifting typology. Squeezing an inherently evolving process into the fixed confines of a state of equilibrium hinders a proper appreciation of the way a corporate-guided market operates.