Positioning Demarketing Strategy

Marketers must integrate the changes in the business environment into effective new product, pricing, distribution, and promotion strategies.

In contemporary management, growth is implicitly a central element of successful marketing practice. This philosophy has developed in a marketing environment in which it was assumed that there would always be more consumption potential that could be serviced by marketing organizations. However, the continued growth of consumption in the early 1970s, together with more recent inflationary pressures and materials shortages, have tested the marketing system's ability to fully meet its objective of achieving customer satisfaction and long-term profitability.

The development of a marketing orientation specific to this new marketing environment is the basis of the concept of demarketing. This concept maintains that the marketer's task is to shape demand to conform with long-term objectives rather than blindly engineer increases in sales without regard to such objectives. Interest in demarketing has rapidly increased internationally as companies worldwide have faced the decision problems associated with raw material or product shortages. These problems include the nature and level of advertising that can be justified, the role of the salesman, the clients who are to be dropped, the desire to alter product pricing to equate supplies and demand, the allocation of limited supplies of products to distributors, and bases for product substitution. Business concern with these problems has been accentuated by the speed with which the situation developed and the wide range of company activities affected by these changes.

Decision making in times of severe change presents substantial problems to marketers. Specifically, two questions need to be answered: What is the relevant marketing orientation for developing strategy? What strategy alternatives are available for marketing mix elements? This article attempts to provide answers to these questions and to apply them to help marketing managers position demarketing strategy relative to overall marketing strategy.

A Changing Marketing Orientation

The functions of marketing have characteristically emphasized the task of creating and maintaining demand in an environment of abundance. However, recent changes in the business environment have focused attention on a wider range of marketing tasks which include that of reducing overfull demand, or demarketing. Marketing management's strategy response during times of shortages tends to vary considerably depending upon the company's perception of the severity or permanence of the shortages. Despite

5. See same reference as footnote 1.
temporary pressure on the relevance of a marketing approach, it is generally believed that marketing will remain an essential part of management decision making and emerge in a healthier form.6

To assess the nature and extent of reorientation necessary to develop effective marketing management in the increasingly dynamic business environment, it is valuable to reconsider the central elements of marketing philosophy. These elements are: an integrated approach, a customer orientation, and long-term profitability in relation to customer satisfaction.

An Integrated Approach

Marketing has been characterized as the management of change with respect to opportunity assessment in the market and the integration of change into organizational decision processes.7 After some months of shortage-related marketing problems, however, it is apparent that it is change, both extensive and rapid, which marketers have not been readily able to integrate into existing marketing orientations and strategy.

In reacting to this change, it is important that the marketing programs chosen for implementation consider long-term effects as well as the more identifiable short-term effects. Likewise, the demarketing situation requires that a firm know more, not less, about the effects of its actions on its relationship with customers. Hence, the development or presence of a marketing orientation in the organization remains a viable approach that is consistent with company profitability objectives.

In an environment of excess supply, the development of marketing strategy has emphasized the integration of product, price, distribution, and promotion decision variables. In the excess-demand situation, marketers have been forced to recognize the importance of long-term supply relationships which may involve a compromise in terms of minimizing the cost of the raw material or product. This has accentuated the strategy of vertical integration, backwards toward the supplier. Similarly, the purchasing function has increased in status in many organizations.8 However, as marketers develop substantial strategy changes in these decision areas, it is critical that they give due consideration to the extent and permanence of change that has taken place.

A Customer Orientation

Manufacturers and retailers can readily identify the problems that have arisen for them in the current situation, but it is the extent and nature of problems that have been created for their customers that should receive primary attention. Does the customer perceive the problem to be as great as the marketer does? Does the customer still believe a particular company is interested in, and tries to solve, his particular problems? In addition, marketers whose products depend upon derived demand must be aware of the problems and trends in the ultimate market. For example, manufacturers of pumps for gasoline outlets quickly found themselves in a declining market as gasoline shortages persisted.9

In attempting to solve problems at the customer level, the marketer may endeavor to change the customer’s perspective as to which products and services will satisfy his end-use expectations. One approach utilizes the concept of generalization, which attempts to broaden the range of goods and services that the buyer may see as satisfying his needs. For example, bar soap may be promoted as a substitute for liquid detergent or powdered soap. A second approach utilizes the concept of discrimination to narrow the use expectations of a raw material or product. For example, the Arab countries are actively encouraging the viewpoint that oil should only be used in petrochemical industry development and not as an energy source. In demarketing, marketers are faced with managing social change—the shifting of social values and behavior away from extensive consumption to limited consumption. Attitude behavior research indicates that it is more difficult to achieve changes in direction than it is to reinforce existing attitudes and behavior. The problem then, of implementing general demarketing, is a very challenging one.

The excess-demand marketing environment is mainly considered in terms of the problems that have been created. Yet marketers need to recognize that a problem to one organization is an opportunity to another. This is particularly true


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when the problems are associated with product shortages or the inability of business to satisfy customer demand. For example, does the increased price of synthetics due to the increased oil prices provide a better marketing opportunity for wool fibers? Likewise, a variety of efforts are now focused on the further development of coal, solar, and water-based energy and associated business opportunities.

Long-Term Profitability

Whatever the market environment, marketers are faced with balancing the level of marketing effort directed to achieving customer satisfaction and corporate profitability. In times of excess supply the theme has been sales growth to achieve profitability, which resulted in extensive product and service proliferation as “me-too” products were directed at increasingly smaller market segments. These trends have been questioned by consumerist groups, retailers, and now by management, as profitability rather than sales growth has become a critical objective. Profitability analysis has always been a part of the performance evaluation of the alert firm, but even in the present situation a marketing-oriented rather than cost-oriented approach is needed.

An assessment of what a satisfactory or optimal level of marketing effort is will be influenced (1) by the marketer’s perception of an integrated approach, (2) by the product differentiation—market segmentation decisions of the organization, and (3) by long-term versus short-term objectives. The evaluation of a particular input should be based on both profitability and consumer expectations. For example, sales force objectives are readily defined in terms of sales performance, yet not quite so readily in terms of establishing buyer-seller relationships, and certainly less readily in terms of market intelligence. As an excess-demand situation develops, these latter two objectives will increase the importance of the sales force rather than encourage sales force reduction.

The positioning of a company’s demarketing strategy relative to its overall marketing strategy requires recognition of alternate objectives: reducing overall demand, general demarketing;\(^\text{10}\) or maintaining a holding position, controlled demarketing. Initial assessment indicates the value of the general approach for permanent shortages, and the controlled approach for temporary shortages. A precise determination of the strategy to be implemented will depend upon the expectations of consumers, competitors, and the government in the shortage situation relative to the “normal” marketing environment. For example, gasoline advertising budgets were cut almost on an industrywide basis as oil shortages became critical, but brand promotion was reinstated as supplies improved. However, governments are now expressing the viewpoint that energy conservation is necessary because of a long-term energy shortage and thus that only conservation-theme advertising will be acceptable in the future.

Strategy for Marketing Mix Elements

Demarketing is an integral component of general marketing and must be positioned from a broad, rather than a narrow, viewpoint. Overall it is necessary that marketing management be aware of the general priority changes that have occurred for specific marketing mix elements as the marketing environment shifts from one of excess supply to one of excess demand. Table 1 summarizes these changes, and in the following sections each decision area is considered in relation to strategy evaluation. The importance for marketing management of integrating the effects of changes in the marketing decision variables cannot be overemphasized.

Product Strategy Evaluation

The shortage situation has focused attention on raw material and product substitutes to ensure getting supplies of existing products to the market, but marketers should also refocus attention on product quality, product elimination, and product diversification decisions.

The concept of product substitutes deals with varying the raw material input to achieve supply and price stability. If traditional inputs are rising in price in conjunction with the shortage environment, is it not better to substitute other inputs? For example, as meat prices rose rapidly in the U.S. market, there was a marked increase in the substitution of meat analogues. In developing a substitution strategy, marketers should evaluate possible alternatives in terms of supply trends, price trends, technical compatibility, product quality acceptability, degree of irreversibility introduced, time interval to achieve change, cost of change, and political stability. The weighting to be given to each criterion will vary across product categories, but the impact of substitutes on product quality requires special consideration. Product demand is related importantly to the absolute level of quality and consumer expectations. An understanding of consumer behavior indicates the potential weakness of any general strategy

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10. Same reference as footnote 1.
that includes significant decreases in product quality to overcome the shortage problem. Opportunity for downgrading a product will exist primarily in areas where consumer expectations are lower than the product’s specific attributes or where a latitude of acceptance exists.

The current environment reinforces management’s task of eliminating unprofitable products and market segments. Analytical approaches to the elimination decision are available and have been extended to include criteria relevant to the current situation. These criteria are (1) the rate of return on investment and (2) annual sales growth in relation to a life cycle trajectory. The findings of such analysis may result in secondary products being elevated to primary status, and introduce a complementary decision area—product diversification.

General growth strategy criteria will be expanded to include supply stability, the opportunities in specialized products and/or services relative to mass marketing, and unit profitability relative to sales volume. A key element of a marketing-oriented approach is for management to see the product shortage difficulties as opportunities rather than insurmountable problems. As Kotler stated:

Periods of shortages are an opportunity to the enterprising firm. The very definition of a shortage is that customers’ needs are not being met . . . . A shortage of heating oil means an opportunity to increase the sales of sweaters, fireplaces, and electric heating blankets.

Central to management’s use of this analysis is the development of improved forecasting techniques for both market and supply prediction. Market research has focused mainly on developing profiles of purchase patterns. This focus is partly related to the difficulties involved in researching attitude systems to predict behavior. However, researchers are increasingly aware of the need to make progress in their ability to assess future behavior, and a continuous monitoring trend approach offers interesting potential.

Overall, the increasingly dynamic market situation will force companies to be more flexible with their product ranges and component materials.

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13. See same reference as footnote 3.
Product evaluation will become more profitability specific and new product marketing will remain a high risk area as cost increases and market changes continue. Hence, new product development will have to be based on real improvements rather than the "me-too" approach.

**Pricing Strategy Evaluation**

Rapid inflation and extensive shortages have accelerated the institution of price stabilization regulations. To many in management, this has placed substantial restrictions on the use of pricing as a major marketing tool for equating supply and demand. While marketers acknowledge the importance of keeping prices down, the shortage situation has been associated with rapidly changing costs that must be recovered if the product is to remain profitable. Likewise, distributors and retailers have become stricter in their screening of less-profitable products in order to control margins better. The current situation requires that marketers develop a flexible approach. Of interest in strategy evaluation are pricing objectives, price levels, and discounts.

During times of excess supply, pricing strategies have been developed to achieve sales volume as the basis for corporate profitability and, therefore, have emphasized penetration price levels. In the current situation of supply shortages, increasing attention is being given to the profitability of such pricing approaches and companies are showing less interest in new opportunities with low profit margins. For example, Fairchild Camera & Instrument Corporation recently bowed out of a price war with Texas Instruments for two control modules for Polaroid Corporation's SX-70 camera, because the profit margin would not be sufficient given the new business environment.15

In a purely economic sense marketers can reduce demand for their product by increasing the price. However, this approach is limited both by control regulations and by the nature of competitive price levels and consumer expectations. The competitive effect is represented by traditional price leadership or by distinct alternatives in terms of price skimming or penetration strategies. These factors reinforce the view that pricing decisions include an important element of relativity; but with the rapid changes in base costs, it is essential that marketers appraise their prices frequently. While a yearly price setting may be suitable in stable conditions, current developments require at least a monthly evaluation. Consumer expectations relative to price levels and their changes are also an integral part of the price evaluation process. If the price increase effectively places a product at the top of the price range for that product class, demand might increase as a result of the product's higher quality perception, but too high an increase could curtail demand. For example, consumers have expressed their intent not to pay high prices for food. Del Monte Corporation has reacted by focusing on basic foods, rather than expensive convenience foods, as new products.16 For durable products, initial consumer analysis indicates an expectation of rolling price increases but with an associated desire for improved quality.

The setting of price levels and associated margins for each part of the distribution channel is significantly affected by the service and discount policies of the company. In the past, as direct price competition became less evident, companies achieved differentiation in the trade decision area by offering a variety of extra services. Evaluation of trade credit terms now affords an opportunity for cost savings. This has resulted in stricter trade credit terms, but taking this approach to its extremes would be against the long-term marketing objective of favorable (or positive) supplier/customer relationships. A high degree of sensitivity is necessary in this area. Companies have also offered a range of service factors for their products to achieve sales growth in the market. The cost effectiveness of these services in relation to sales, profitability, customer expectations, and competitive offerings is often not clear and represents an area of potential savings.

**Distribution Strategy Evaluation**

The development of effective channels of distribution requires time and, as a result, there is restricted flexibility for short-term changes. An era of shortages affords companies the opportunity to develop significant changes in the distribution system rather than just competitive reaction responses. In the short-term approach, the major focus is on product allocation within the distribution system and an order-taking orientation to customer service. This is satisfactory while customers expect shortage-related supply problems, but customer-oriented service is still relevant for achieving long-term profitability. The concept of mass distribution is also under pressure in the present environment, and market-

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ers should be aware of the opportunity for overall planned restructuring of the distribution channel.

An integrated evaluation of distribution strategy focuses initially on the balance between customer service indexed by distribution outlet coverage, speed of delivery and service, and the profitability of a specific combination. An environment of abundant supplies and competitive market situations has forced companies to increase the service side of their product and distribution offering. In New Zealand, where abundance and high-level competition have been only marginally present in the automobile market for some years, an order-taking level of service is an integral part of marketing strategy. Customers have never had higher levels of service, so their expectation levels have been consistent with the service level—a form of general demarketing. The increasing emphasis on profitability orientation in marketing requires that marketers evaluate their performance in this area. In many countries, gasoline marketers have been reducing the number of outlets because profitability analysis indicated overinvestment in this area. Extreme reductions in market coverage are perhaps possible if the product is held in high esteem or is considered a necessity, but for other products it will create a marketing opportunity for competitors.

As the marketing task emphasizes reducing consumer demand, marketers can implement the strategy of target segment distribution. The uncertainty of the shortage situation does not make this a clear alternative, so quota distribution is necessary to deal with the current shortages of goods and services. The problem for marketing management is how to allocate the available product supplies and maintain the goodwill of distributors and customers. A first come, first served basis accelerates panic buying or hoarding, which may not be in the company's best interest. Likewise, quotas based on historical sales levels reinforce existing market structures, which may not be sufficiently sensitive to change. And while a projected market potential basis is consistent with market opportunity assessment, it may hurt traditional outlets or customers and result in an image of discrimination.

Distribution development during the 1960s has seen a shift in the balance of channel power from manufacturer to retailer. Shortages move this balance back toward the manufacturer, but if the power is exercised in a coercive manner a major distribution channel outlet may be lost. Marketers need to develop their short-term strategies in conjunction with estimates of market trends, distribution trends, and customer expectations. The emphasis here is on determining the extent and real directions of market changes and adjusting distribution strategy to those changes.

Promotion Strategy Evaluation

Evaluating the cost effectiveness of a particular promotion program continues to be an area of uncertainty. Many marketers thus tend to cut advertising and sales force budgets in the face of a decline in supply. In this direction, food advertising in the U.S. was cut back about 25% in the first half of 1973 because of the unavailability of essential ingredients, inadequate product profitability, and Phase 4 of the economic stabilization program.17 Further reports indicated that salesmen were being laid off or reassigned. These approaches may have undesirable long-term effects, and the real need may be to develop new promotion strategies for the traditional task-level budgets. The net benefit of changing the level or direction of promotion will depend upon the change strategies of competitors, government policy, and the absolute level of promotion that is maintained. Marketing decision makers should recognize that an unsatisfied demand associated with a shortage of supplies is more readily satisfied than a satisfied demand associated with a "loss-of-leader" image.

Traditionally, sales force performance has been based on sales volume and quota criteria. In the present market environment, however, an extension of performance criteria is necessary and should include service orientation and marketing intelligence. The service focus requires that salesmen solve their customers' supply problems and be well informed on product availability and allocation procedures.18 Certainly in the process the salesman and the company should conduct customer evaluations in terms of long-term profitability growth criteria. The marketing intelligence function should assess the competitive supply situation for the company's main buyers, assist in locating substitute products, and determine whether traditional buyers are moving into other areas of business activity. Whether the overall objective is to create or reduce demand, the broadening of the salesman's activity requirements points to the need for an increasingly marketing-oriented approach for the long run.

The shortage situation has accentuated the pressures on advertising from both a business and societal perspective. Never in its history has advertising faced compulsory legislative and moral change on such a vast scale and with such abruptness. Consistent with this analysis, the Federal Energy Administration warned marketers against gasoline promotion other than that required to protect the company’s market share, even when supplies were freely available. New promotion themes have focused on “national interest” conservation in the short run. As the shortage situation continues, however, a major re-orientation in advertising is taking place—from the general conservation approach in the energy-related industries, to specific demarketing utilized by Foster-Grant for polystyrene. Expectation of behavior change from such programs must be low following the years of advertising of the “promote consumption” variety; as advertising themes develop under the new approach, there will be an important credibility gap to be bridged between companies and individuals. In developing major changes in consumer orientation, the focus in advertising should be on creating new attitudes that relate to emerging social value patterns and that specify action alternatives for consumers. The problem is considered to be a major one which requires substantial funding.

Conclusion

The development of an environment of shortages reinforces the need for marketers to recognize marketing as the management of change. An in-depth consideration of central elements of marketing philosophy and response criteria for marketing mix elements clearly indicates the continued benefits that are available to companies with a marketing orientation. Demarketing strategy is an integral part of overall marketing and focuses on reducing or rationing demand. The market situation that has accelerated interest in demarketing offers new opportunities to the alert marketer and important opportunities for all companies to increase the productivity of their marketing expenditures.

In the future it is reasonable to expect oscillation in the market environment between marketing to create or maintain demand and marketing to ration or reduce demand. Marketing research should increase its focus on social and technological trend analysis relative to historical profiles of sales and purchase behavior. This will assist marketers in obtaining early warnings of substantial changes in the market environment and in developing sensitive strategies to respond to the changes.


