

Market Power, Margin, and Relationships

MKT 370_01 – Spring 2011

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What do market power, margin, and relationships have to do with marketing?

The short answer is “Everything!” In 1933 Edward Chamberlain outlined in *The Theory of Monopolistic Competition* a view of economics different from the dominant thinking at the time, one that most would now recognize as consistent with modern business practices and modern marketing in particular. That same year Joan Robinson published *The Theory of Imperfect Competition*, a book with similar themes. These two economists recognized that in the pursuit of profits most firms seek situations of less rather than more direct competition. In their view firms work to differentiate their products and services (sound familiar?). By then national brands (e.g., Proctor & Gamble, Campbell’s Soup, etc.) had begun establishing customer loyalty and brand equity. We now take such practices for granted. In doing so, however, we sometimes forget the goal of these efforts: to achieve above average returns from positions of power in the market.

Why a “resource dependency” approach?

Resource dependency theory offers a robust understanding of how a firm survives over time. Coming out of management, this theory helps us appreciate why we do what we do in marketing and sometimes what we should do next. While numerous theories help explain market dynamics, few theories capture simultaneously the interplay between a dynamic external environment and a dynamic organizational environment. According to this theory, managers allocate internal resources in attempts to successfully extract resources from the external environment. Marketing plays a critical role in this process.

How this course relates to other courses:

- 1) Modern marketing combines theories from economics, psychology, and data analysis to understand buyer behavior and market dynamics. This course compliments marketing courses by offering a firm-level, long-term strategic view.
- 2) The relationship between management and marketing is inextricable. A well-managed firm will not succeed without effective marketing and effective marketing cannot be sustained without good management.
- 3) Finance and accounting emphasize the impact of specific actions by identifying “best” sources for capital “best” options for investing capital (e.g., a make vs. buy decision) and the accurate measurement and reporting of results. They plan for and focus on getting the most from an organization’s assets, consistent with resource dependency theory.
- 4) Economics offers numerous connections to resource dependency, particularly in theories dealing with microeconomics, imperfect information, and industrial organization.
- 5) Psychology contributes to virtually every area of business. Because people comprise the business environment psychology relates directly to how a firm can best interact with that environment.

- 6) Business law and the regulatory environment also add to our understanding of how markets work, or fail to work, and what firm activities can be most effective given regulatory and legal limits.

My background:

- 1) I have a Ph.D. in marketing and an undergraduate degree in social science and economics (dual major). All of my degrees are from Michigan State University.
- 2) My first full-time faculty position was as Assistant Professor at the University of Kentucky. Afterward I moved to Quinnipiac University where I was promoted to Associate Professor and then Professor, and served for three years as Associate Vice President of Academic Affairs.
- 3) I have five years of business experience in marketing and operations with an equal number of years in skilled or semi-skilled positions (i.e. hospital orderly, electronics technician, factory worker, convenience store clerk, mailman, etc.).
- 4) I have consulted with businesses and government agencies, primarily in the prosecution of pyramid schemes.
- 5) I have conducted original research in marketing, published a number of articles in professional journals, co-authored a book on consumer fraud, and spoken and written about business for media outlets.

What I expect from you and what you can expect from me:

I expect that we can learn a lot from each other. I see my job as establishing the path and timetable that we will follow. Since this is a shared experience, I expect that throughout the course you will be honest in your dealings with me and with your classmates. I expect you to meet all deadlines and that all work claimed by you will indeed be your work. Please see the TCNJ policy regarding academic integrity. If in doubt follow this rule: **If what you give me is not in your own words it must be in quotes and appropriately cited. If I find that it is not I will immediately stop reading the work and assign it a grade of zero.** I expect you to seek me out if you have a question on any course issue, recognizing that sometimes asking questions can be uncomfortable. Mostly, however, I expect from you a reasonable amount of curiosity and effort to learn why businesses do what they do.

You can expect from me a genuine effort to bring into the classroom an integrative, contemporary understanding of business in general and marketing in particular. You can expect from me honest feedback and candid responses to your questions. You can also expect from me timely assignments and graded work, structured in a way that can help you improve your understanding of both theory and practice. You can expect me to make myself available for your questions (either in-person, via the telephone, or via email). Finally I hope we can all expect from each other a courteous and even fun classroom environment.

Learning Outcomes: Successfully completing this course should enhance your ability to...

- 1) ...identify the critical impact environmental factors have on a firm's success overtime.
- 2) ...recognize and describe how management decisions and resource allocations influence a firm's success in responding to the market environment.
- 3) ...relate through critical thinking how a particular marketing approach aligns with the characteristics of that environment.

- 4) ...develop and propose ways of minimizing the negative impact of internal and external constraints while pursuing market opportunities in the environment.
- 5) ...relate leadership issues – including style, ethics, and succession – to the firm’s continued success.
- 6) ...communicate and defend your thinking via written analysis and discussion.

The overall objective of this course is to increase each student’s individual skills and confidence when dealing with marketing issues. Each student will likely enter with a unique background and skill set. If you are not suitably challenged or, alternatively, feel lost please let me know.

Required Texts:

The External Control of Organizations, by Pfeffer and Salancik (\$22)

Wall Street Journal Subscription (WSJ) – 10 weeks (\$20)

Articles from: The New York Times (NYT), Wall Street Journal (WSL), McKinsey Quarterly (McKinsey), Marketing Channels by Coughlan, Anderson, Stern, and El-Ansary (Coughlan, et al.).

FAILURE TO SUBSCRIBE TO THE WSJ BY FEBRUARY 7, 2011 WILL RESULT IN A REDUCTION OF YOUR FINAL GRADE BY ONE FULL LETTER GRADE. THIS IS NON-NEGOTIABLE.

Cases:

1. *Peak Garage Doors*
2. *Black & Decker*
3. *DuPont*
4. *Verklar Austria*

Course Format:

- **Class Discussion:** Each day we will discuss a chapter, some readings, or a case. The book is quite theoretical, with some practical examples, while the readings illustrate actual business practices. Your input will help make these discussions come alive. Without your input it will be a long semester. To prevent that, I will feel free to call on any student at any time.
- **Case Analyses:** We will also cover four graded cases, worked on in small teams (team size depends on course enrollment). Each case requires written answers to case-specific questions, to be discussed in class. Each case write-up will have two grades: one for the quality of the answers (all team members get the same grade) and one for the quality of the writing (separate grade for the author). Each student is required to write one case analysis. A analysis will be 4-5 pages, double-spaced with separate supporting evidence when needed.
- **WSJ Summaries:** Each student will write two summaries of Wall Street Journal articles relating a real world experience to a theory or topic discussed in class. The summaries will be no more than 2 pages long, double-spaced. Each summary will receive a grade for the quality of the connection between practice and theory, and a separate grade for writing.
- **Exams:** Two exams will be given. I use either short cases or essay questions for the exams.

Graded Tasks (a total of 1000pts):

- **Exams (45%)** – There will be a midterm and final exam (midterm = 200pts; final = 250pts).
- **Cases (30%)** – Case grade based on quality of the answers (65pts x 4 cases = 260pts) with the case you write also graded in terms of the quality of your writing (40pts).

- WSJ Summaries (15%) – Grade based on the degree to which the example is explained in relationship to one or more concepts described in the course (55pts x 2 summaries = 110pts) and the quality of the writing (20pts x 2 = 40pts).
- Class Participation/Attendance (10%) – I will provide feedback regarding your participation in the class (100pts).

Course Policies:

- **Attendance:** Class discuss helps illuminate connections between theory and practice, therefore class attendance is important. However issues will arise, such as sickness, job interviews, car problems, etc. that contribute to an absence. Missing more than four class periods poses a problem. I will deduct 25 pts from your final points for each class missed after four unless you have a documented personal emergency. In the case of a personal crisis that will result in many more than two absences please see me.
- **Grading Scale:** A = 93-100; A- = 90-92; B+ = 87-89; B = 83-86; B- = 80-82; C+ = 77-79; C = 73-76; C- = 70-72; D = 60-69; F = 0-59.
- **Important Note:** To get the most from this experience you have a responsibility to yourself to let me know if I fail to meet your expectations. I have a similar responsibility to let you know if you fail to meet mine. If we make these communications our probability of success will increase substantially. It will also be more than “OK” if we let each other know, including your fellow classmates, when things are going well.

Date	Day	Topics and Readings
1/18	Tuesday	Introduction to Key Concepts and Course Learning Outcomes
1/21 & 1/25	Friday & Tuesday	Topic: Resource Dependency: The Interplay Between Organizations and their Environment <ul style="list-style-type: none"> • Read: <i>P&S</i>, Chapter 1 (20) Topic: The Economics of Competitive Markets and Margin <ul style="list-style-type: none"> • Read: Perfect Competition article (link) • Read: Michael Porter’s Five Forces of Competition (link) • In Class: Flexo Case (1/25)
1/28 & 2/1	Friday & Tuesday	Topic: Relationships and Margin <ul style="list-style-type: none"> • Read: <i>Journal of the Academy of Marketing Science</i>, Managing Market Relationships – Day (7) • Read: <i>Journal of Marketing</i>, Forces Impinging on Long-Term Relationships – Keep, Hollander and Dickinson (15) Topic: Organizations From the Inside Out <ul style="list-style-type: none"> • Reading: <i>P&S</i>, Chapter 2 (15) • WSJ Summaries (due 1/31 8:00AM)
2/4 & 2/8	Friday & Tuesday	Topic: The Importance of Power and Its Sources <ul style="list-style-type: none"> • Read: <i>Coughlan, et al</i>, Channel Power: Getting It, Using It, Keeping It (42) • Read: <i>NYT</i>, Can Johnson & Johnson Get Its Act Together? (6) • WSJ Summaries (due 2/7 8:00AM)
2/11	Friday	NO CLASS ON 2/11 – work on Case #1
2/15 &	Tuesday &	Case: <i>Peak Garage Doors</i> (Due: 2/15) Topic: Organizational Constraints – Internal and External

2/18	Friday	<ul style="list-style-type: none"> Read: <i>P&S</i>, Chapter 3 (23 pages)
2/22	Tuesday	Topic: Reading and Understanding the Environment
&	&	<ul style="list-style-type: none"> Read: <i>P&S</i>, Chapter 4 (28 pages)
2/25	Friday	<ul style="list-style-type: none"> WSJ Summaries (due 2/24 8:00AM)
3/1	Tuesday	Topic: The Power of External Groups and Managing Organizational Demands
&	&	<ul style="list-style-type: none"> Read: <i>P&S</i>, Chapter 5 (20 pages)
3/4	Friday	<ul style="list-style-type: none"> Read: <i>NYT</i>, The Real Owner of All Those Planes (6)
3/8	Tuesday	SPRING BREAK!!!
&	&	SPRING BREAK!!!
3/11	Friday	SPRING BREAK!!!
3/15	Tuesday	Case: <i>Black & Decker</i> (Due: 3/15)
&	&	
3/18	Friday	Midterm Exam
3/22	Tuesday	Topic: Using Control to Alter Organizational Interdependencies
&	&	Read: <i>P&S</i> , Chapter 6 (28 pages)
3/25	Friday	<ul style="list-style-type: none"> Read: <i>McKinsey</i>, Channel Conflict (2) Read: <i>McKinsey</i>, Partners (11) WSJ Summaries (due 2/24 8:00AM)
3/29	Tuesday	Topic: Negotiating The Environment and Collective Structures
&	&	<ul style="list-style-type: none"> Read: <i>P&S</i>, Chapter 7 (pages – 42)
4/1	Friday	<ul style="list-style-type: none"> Read: <i>NYT</i>, Danone's China Venture Turns Into a Battle (4) Read: <i>WSJ</i>, Danone Pulls Out of Disputed China Venture (2)
		Case: <i>DuPont</i> (Due: 4/1)
4/4	Tuesday	Topic: Controlling Interdependencies Through Law and Social Sanctions
&	&	<ul style="list-style-type: none"> Read: <i>P&S</i>, Chapter 8 (pages – 35)
4/8	Friday	<ul style="list-style-type: none"> Read: <i>NYT</i>, Oil and Gas Interests Set Spending Record (5) Read: <i>NYT</i>, Timberland's Green China Campaign (3) WSJ Summaries (due 4/7 8:00AM)
4/12	Tuesday	Topic: Executive Succession and Leadership
&	&	<ul style="list-style-type: none"> Read: <i>P&S</i>, Chapter 9 (pages – 28)
4/15	Friday	<ul style="list-style-type: none"> Read: <i>McKinsey</i>, Planning for your next CEO (4) WSJ Summaries (due 4/14 8:00AM)
4/19	Tuesday	Topic: Leadership and Ethics
&	&	<ul style="list-style-type: none"> Read: <i>McKinsey</i>, Managing your organization by the evidence (12)
4/22	Friday	<ul style="list-style-type: none"> Read: <i>WSJ</i>, Liberty Mutual settles bid (1) Read: <i>NYT</i>, Airline Price Fixing (3) Read: <i>NYT</i>, Is Fraud O.K., if You Help Just a Little? (3)
		Topic: Designing and Managing Effective Organizations
		<ul style="list-style-type: none"> Read: <i>P&S</i>, Chapter 10 (pages – 29)
4/26	Tuesday	Case: <i>Verklar Austria</i> (Due: 4/26)
		FINAL EXAM