The Management of Specific Demand

"Bristol-Myers does not, in general, develop products in its labs and then determine how they might be marketed. It ordinarily begins with extensive consumer testing and other market research, proceeds from there to develop some concept of a marketing opportunity, including even some notions about advertising campaigns; and only then does it turn to the labs for products that might meet these specifications."

Fortune, February 1967.

"On the question of the determinants of consumer wants, he is in fact astoundingly naive. He seems to believe that it is the affluence of America that has made wants susceptible to manipulation..."


For all industrial planning, that of the United States as well as of other industrial societies, the control of prices is strategic. These must be subject to the authority of the planning unit; otherwise there is risk of loss from uncontrolled price movements and there is no reliable number by which units of product and input can be multiplied to get projected income and outlay. If these estimates are not available in reliable form, there is a large random element in decisions as to what to produce, and with what and by what means, and there is total uncertainty as to the outcome — whether there will be profit or loss and in what dimension. Such error is the antithesis of effective planning. A moment’s thought will suggest not only how nearly impossible it would make modern industrial performance but how remote, in practice, such uncontrolled prices are from real life.

The control of prices in the industrial system is not perfect, and the fact of this imperfection is important not only in itself but also for economic polemics. It is a well-established technique of argument, on encountering something which cannot easily be reconciled with preferred belief, to point to the exceptions. What does not invariably exist is held not to exist. Economics is committed by ancient faith to the control of the firm by the market. Some, accordingly, will be tempted to argue that since the control of prices by the mature corporation is not complete, it can be dismissed. This mode of argument need not detain us; once recognized as a polemical device, it becomes unpersuasive. It is worth noting that until comparatively recently trade unions were held by those who found them analytically inconvenient to be relatively unimportant in wage-setting because their sway was incomplete or their powers circumscribed. And even the large corporation was ignored because it had not completely replaced the proprietary firm. Though imperfect, control of prices in the industrial system is organic — it serves its most fundamental goals. And the fact of such control, fortunately for anyone who urges the reality, is admirably visible.

Control of prices is for a purpose — for the security of the technosstructure and to allow planned pursuit of its further goals. But price control does little to advance these goals unless there is also control over the amounts that are bought or sold at these prices. Security, growth and effective planning to achieve these would be jeopardized by erratic or unpredictable price

behavior. But these would equally be frustrated by a decision by the public not to buy at the controlled prices. It would be quixotic for the mature corporation to seek control over its prices and then leave purchases at these prices to the random fate of taste and accident. Such fluctuations in the amounts taken would be no less damaging to planning and the goals that it serves than fluctuations in prices. Moreover, the fluctuations in amounts taken are accentuated by price control; a fall in prices (through elasticity of demand) no longer acts to arrest a fall in purchases and vice versa. So, intimately intertwined with the need to control prices is the need to control what is sold at those prices.

The control or management of demand is, in fact, a vast and rapidly growing industry in itself. It embraces a huge network of communications, a great array of merchandising and selling organizations, nearly the entire advertising industry, numerous ancillary research, training and other related services and much more. In everyday parlance this great machine, and the demanding and varied talents that it employs, are said to be engaged in selling goods. In less ambiguous language it means that it is engaged in the management of those who buy goods.

The key to the management of demand is effective management of the purchases of final consumers — of individuals and the state. If these are under effective control, there will then be a comparatively reliable demand for raw materials, parts, machinery and other items going into the ultimate product. If the demand for its automobiles is reliable, General Motors can accord its suppliers the security of long-term contracts. And, in the absence of such contracts, there will still be a reliable and predictable flow of orders which allows of planning. Although the techniques for managing government purchases are different from those employed for consumer demand they make the same contribution to planning by prime- and sub-contractors.

The effective management of consumer behavior does not embrace the whole task of controlling demand. An automobile company must insure that consumers devote a dependable share of their outlays to automobiles in general and to its cars in particular. But its sales will still be highly irregular if, though they spend a constant share of their income on its vehicles, there is a radical fluctuation from year to year in what they have to spend. It follows that effective control of consumer demand requires management not only of how income is spent but also of the amount of income that is available for spending. There must be management of demand both for the specific product and for products in general. Measures to maintain a desired level of aggregate demand are part and parcel of the task of industrial planning. We are here concerned with the management of demand for the specific product.

As so often, change in the industrial system has made possible what change requires. The need to control consumer behavior is a requirement of planning. Planning, in turn, is made necessary by extensive use of advanced technology and capital and by the related scale and complexity of organization. These produce goods efficiently; the result is a very large volume of production. As a further consequence, goods that are related only to elementary physical sensation — that merely prevent hunger, protect against cold, provide shelter, suppress pain — have come to comprise a small and diminishing part of all production. Most goods serve needs that are discovered to the individual not by the palpable discomfort that accompanies deprivation, but by some psychic response to their possession. They

A circumstance, as previously noted, which greatly diminishes the significance of one of the common distinctions in economics—that between microeconomics or the theory of prices and the market, and macroeconomics or the theory which concerns itself with national aggregates. Both prices and aggregate demand are ultimately accommodated to the planning needs of the technostructure. I return to this problem in Chapter XX. Chapters XXVI and XXVII take up the special problems of managing the state as a consumer.
The New Industrial State

give him a sense of personal achievement, accord him a feeling of equality with his neighbors, divert his mind from thought, serve sexual aspiration, promise social acceptability, enhance his subjective feeling of health, well-being or orderly peristalsis, contribute by conventional canons to personal beauty, or are otherwise psychologically rewarding.

Thus it comes about that, as the industrial system develops to the point where it has need for planning and the management of the consumer that this requires, it is also serving wants which are psychological in origin and hence admirably subject to management by appeal to the psyche.

Hunger and other physical pain have an objective and compelling quality. No one whose stomach is totally empty can be persuaded that his need is not for food but for entertainment. A man who is very cold will have a high preference for what makes him warm. But psychic reactions have no such internal anchor; since they exist in the mind they are subject to what influences the mind. Though a hungry man cannot be persuaded as between bread and a circus, a well-nourished man can. And he can be persuaded as between different circuses and different foods. The further a man is removed from physical need the more open he is to persuasion — or management — as to what he buys. This is, perhaps, the most important consequence for economics of increasing affluence.  

5 I have dealt with this tendency on two earlier occasions (American Capitalism: The Concept of Counternailing Power [London: Hamish Hamilton, 1969, Penguin], Chapter VIII; and The Affluent Society [London: Hamish Hamilton, 2nd Edition, 1969], Chapter XI). Accordingly, I am confining myself here to the barest essentials. These notions, particularly the distinction between physical and psychologically based wants, together with a declining marginal utility of income, though they will seem eminently sensible to the reader, are only gradually being accepted by economists. (See Professor Scott Gordon’s comment at the beginning of this chapter.) There are certain methodological excuses for this resistance but the reason has, alas, more to do with the instinct for professional self-preservation than with science. As elsewhere noted, a central problem of economics, and long the central problem, was the allocation of resources between uses, that is to say, between products. If this choice is not terribly important and becomes increasingly less important, with increasing income, the economic problem also diminishes in importance and so, more poignantly, do the scholars who dwell on it.

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Along with the opportunity for managing consumer demand, there must also be a mechanism for managing it. Authority is not well regarded here. By giving him a ration card or distributing to him the specific commodities he is to use, the individual can be required to consume in accordance with plan. But this is an onerous form of control, ill-adapted to differences in personality. Save under conditions of great stress as during war or for the very poor, it is not thought acceptable in advanced industrial societies. Even the formally planned economies — the Soviet Union and the Eastern European states — regard rationing as a manifestation of failure. It is easier and, if less precise, still sufficient to manage demand by persuasion rather than by fiat.

Although advertising will be thought the central feature of this management, is certainly important, and concerns an annual expenditure of around $20 billion, much more is involved. Included among the managers are those who sell goods and design the strategies by which they are sold. And so are many who are thought of as engaged in the production of goods. The management of demand consists in devising a sales strategy for a particular product. It also consists in devising a product, or features of a product, around which a sales strategy can be built. Product design, model change, packaging and even performance reflect the need to provide what are called strong selling points. They are thus as much a part of the process of demand management as an advertising campaign.


In a culture which places high value on technological change, there will be a natural presumption that any “new” product is inherently superior to an old one. This attitude will be exploited by those who devise sales strategy with the result that a great many changes in product and packaging will be merely for the sake of having something that can be called new. We have here the explanation of the repetitious claims in virtually all advertising that products are new.
The purpose of demand management is to ensure that people buy what is produced—that plans as to the amounts to be sold at the controlled prices are fulfilled in practice. Not all advertising and selling activity is directed to this end. This fact has polemical importance for it is readily possible to cite forms of advertising or sales effort which are unrelated to the purposes of demand management and industrial planning.

Thus a certain amount of advertising, that of the classified ads and the department store displays, has no great purpose beyond that of conveying information—of advising the public that a particular person or enterprise has a particular item for sale and at what price. Such advertising is seized upon to show that the function of advertising in general is merely to convey information although, as I have noted on other occasions, only a gravely retarded citizen can need to be told that the American Tobacco Company has cigarettes for sale.

Economic theory, under the cachet of monopolistic competition, has also long featured the case of the seller, one among many, who seeks by advertising to associate particular qualities with his product and thus reduce the chances for substitution by another. He then has liberty to charge a higher price and, at least in the short run, reward himself with monopoly profits. This too is a possible case although its requirements as imposed by the textbooks—numerous sellers who have comparative ease of entry into the industry—make it of small practical importance. The accounts of the monopolistically competitive sellers are not those that are cherished by J. Walter Thompson, McCann-Erickson or Ogilvy, Benson and Mather.

Finally, conventional economic theory associates advertising and related arts with oligopoly. Here the characteristic firm of the industrial system eschews price competition as too dangerous and channels its rivalry into ever-changing strategies for winning customers away from another. "In lieu of [price competition] oligopolists rely on ... competition through advertising and other merchandising efforts, and competition through style changes and product improvement ... These large advertising budgets, like heavy armaments, largely cancel each other out. Not even the oligopolists benefit from them." 6

If it be assumed that the consumer is sovereign, save that he is in doubt as to whose product he will buy, this conclusion—that such advertising and by implication many other expenditures including that for model and design changes 7 are self-canceling and functionless—is inescapable. Firms spend money to take business away from each other; all cannot succeed so the result is a standoff. The only consequence is that prices are higher and profits are lower than if by some act of government or industrial statesmanship the struggle were curbed. 8

But such a notion of a limited functionless deadlock is nonsense. If advertising affects the distribution of demand between sellers of a particular product and forces defensive counteraction it must also be supposed that it affects the distribution as between products. This will not be functionless; rather it must increase the flow of revenue to all who advertise. And in the context of planning, in fact, advertising does much more. For, along with the other arts of demand management, it allows the firm a decisive influence over the revenue it receives. What

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8 A recent study ("Advertising Market Structure and Performance" by William S. Comaner and Thomas A. Wilson, Review of Economics and Statistics, Vol. 49, No. 4, November 1967) does show substantially higher profit rates among industries that advertise heavily. The authors of this study attribute this routinenly to the monopoly gains made possible by the resulting product differentiation. It is not evident how all members of an ogpopoly can so gain from differentiation. But all can be beneficiaries of the planning of which effective demand management is a part.
seems to the traditional market economists a sense-deadening struggle between the detergent-makers leading only to stalemate serves a deeper and highly important purpose.

There will be comfort in this conclusion. The present disposition of conventional economic theory to write off annual outlays of many billions of dollars of advertising and similar sales costs by the industrial system as without purpose or consequence is, to say the least, peculiar. No other legal economic activity is subject to similar rejection. The discovery that sales and advertising expenditures have an organic role in the system will not, accordingly, seem wholly implausible.

The general effect of sales effort, defined in the broadest terms, is to shift 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. This transfer, like the control of prices, is by no means complete. But again what is imperfect is not unimportant. The "general rule with fewer exceptions than we would like to think, is that if they make it we will buy it." 9

The specific strategy, though it varies somewhat between industries and over time, consists first in recruiting a loyal or automatic corps of customers. This is variously known as building customer loyalty or brand recognition. To the extent that it is successful, it means that the firm has a stable body of customers which is secure against the mass defection which might follow from freely exercised consumer choice. This is the initial contribution to the firm’s planning.

A purely defensive strategy will not, however, suffice. Given the goals of the technostructure all firms will seek to expand sales. Each, accordingly, must seek to do so if it is not to lose out to others. Out of this effort, from firms that are fully able to play the game, comes a crude equilibrating process which accords to each participant a reasonably reliable share of the market. It works, very roughly, as follows.


When a firm is enjoying steady patronage by its existing customers and recruiting new ones, the existing sales strategy, broadly defined, will usually be considered satisfactory. The firm will not quarrel with success. If sales are stationary or slipping, a change in selling methods, advertising strategy, product design or even in the product itself is called for. Testing and experiment are possible. Sooner or later, a new formula that wins a suitable response is obtained. This brings a countering action by the firms that are then failing to make gains.

This process of action and response, which belongs to the field of knowledge known as game theory, leads to a rough equilibrium between the participating firms. Each may win for a time or lose for a time, but the game is played within a narrow range of such gain or loss. As in the case of Packard or Studebaker (as a producer of cars), firms that do not have the resources to play — particularly to stand the very large costs of product design and redesign — will lose out and disappear. And the firms that can play the game will, on occasion, find customers adamant in their resistance to a particular product; no response can be obtained at tolerable cost by any strategy that can be devised.10 The size and product diversification of the mature corporation allow the firm to accept an occasional such failure without undue hazard. But 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. By and large this assumption is justified, which is to say that means can almost always be found to keep exercise of consumer discretion within workable limits.

Were there but one manufacturer of automobiles in the United States, it would still be essential that it enter extensively on the management of its demand. Otherwise consumers, ex-

9 As in the case of the Edsel. I mention this again for, to a quite remarkable extent, this disaster is cited (by those who are made unhappy by these ideas) to prove that planning will not work. It proves what I unhesitatingly concede, which is that it doesn’t work perfectly. Its notoriety owes much to its being exceptional.
ercising the sovereignty that would be inconsistent with the company's planning, might resort to other forms of transportation and other ways of spending their income. (This is the answer to the orthodox contention that advertising is principally induced by market oligopoly.) And under present circumstances a slippage in automobile sales as a whole sets in motion by all the firms the sales strategies (including always the product redesign) by which it is offset. This, in turn, stabilizes the expenditures accruing to the industry.

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Persuasion on the scale just outlined requires that there be comprehensive, repetitive and compelling communication by the managers of demand with the managed. It should be capable of holding the attention of the consumer for considerable periods of time and in a comparatively effortless manner. It should reach people in all spectrums of intelligence. None should be barred by illiteracy or unwillingness to read. Such a means of mass communication was not necessary when the wants of the masses were anchored primarily in physical need. The masses could not then be persuaded as to their spending — this went for basic foods and shelter. The wants of a well-to-do minority could be managed. But since this minority was generally literate, or sought to seem so, it could be reached selectively by newspapers and magazines, the circulation of which was confined to the literate community. With mass affluence, and therewith the possibility of mass management of demand, these media no longer served.

Technology, once again, solved the problems that it created. Coincidentally with rising mass incomes came first radio and then television. These, in their capacity to hold effortless interest and their accessibility over the entire cultural spectrum, and their independence of any educational qualification, were admirably suited to mass persuasion. Radio and more especially television have, in consequence, become the prime instruments for the management of consumer demand. There is an insistent tendency among solemn social scientists to think of any institution which features rhymed and singing commercials; provides intense and lachrymose voices urging highly improbable enjoyments; offers caricatures of the human esophagus in normal or impaired operation; and which hints implausibly at opportunities for antiseptic seduction, as inherently trivial. This is a great mistake. The industrial system is profoundly dependent on commercial television and could not exist in its present form without it. Economists who eschew discussion of its economic significance, or dismiss it as a wicked waste, are protecting their reputation and that of their subject for Calvinist austerity. But they are not adding to their reputation for relevance.

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The management of demand, as here to be seen, is in all respects an admirably subtle arrangement in social design. It works not on the individual but on the mass. Any individual of will and determination can contract out from its influence. This being so, no case for individual compulsion in the purchase of any product can be established. To all who object there is a natural answer: You are at liberty to leave! Yet there is slight danger that enough people will ever assert their individuality to impair the management of mass behavior.

The management of demand is a make or break matter for presently accepted economics. If the consumer can be reached and influenced by the producer, then much is changed and much that happens is at the behest of the producer not the consumer. If the consumer cannot be so reached all is well, all remains as before. The importance of a solid stand at this point has been amply sensed by critics of these ideas. And a number have dug in on the line that the critic himself being im-
mune to persuasion — having contracted out — so, pro tanto, have all others. "I know it is not true of me, and I do not fancy myself cleverer than the next man in this regard." That one's reactions signify the mass reaction is not, scientifically, a very defensible proposition.\(^1\)

This management performs yet another service. For, along with bringing demand under substantial control, it provides, in the aggregate, a relentless propaganda on behalf of goods in general. From early morning until late at night, people are informed of the services rendered by goods — of their profound indispensability. Every feature and facet of every product having been studied for selling points, these are then described with talent, gravity and an aspect of profound concern as the source of health, happiness, social achievement or improved community standing. Even minor qualities of unimportant commodities are enlarged upon with a solemnity which would not be unbecoming in an announcement of the combined return of Christ and all the apostles. More important services, such as the advantages of whiter laundry, are treated with proportionately greater gravity.

The consequence is that while goods become ever more abundant they do not seem to be any less important. On the contrary, it requires an act of will to imagine that anything else is so important. Morally, we agree that the supply of goods is not a measure of human achievement; in fact, we take for granted that it will be so regarded.

Yet it might not have been. In the absence of the massive and artful persuasion that accompanies the management of demand, increasing abundance might well have reduced the interest of people in acquiring more goods. They would not have felt the need for multiplying the artifacts — autos, appliances, detergents, cosmetics — by which they were surrounded. No one would have pressed upon them the advantages of new packages, new forms of processed foods, newly devised dentifraces, new pain-killers or other new variants on older products. Being not pressed by the need for these things, they would have spent less reliably of their income and worked less reliably to get more. The consequence — a lower and less reliable propensity to consume — would have been awkward for the industrial system. That system requires that people will work without any limiting horizon to procure more goods. Were they to cease to work after acquiring a certain sufficiency, there would be limits on the expansion of the system. Growth could not then remain a goal. Advertising and its related arts thus help develop the kind of man the goals of the industrial system require — one that reliably spends his income and works reliably because he is always in need of more.

This effort has the further effect of sustaining the prestige of the industrial system. Goods are what the industrial system supplies. Advertising by making goods important makes the industrial system important. And therewith it helps to sustain the social importance and prestige that attach to the technology. As the landowner and the capitalist lost prestige when land and capital ceased to be socially decisive, so the technology would sink into the background were the supply of industrial products to become routine in the manner of water from a waterworks in a year of adequate rainfall. This would have happened long since had not advertising, with its unremitting emphasis on the importance of goods, kept people persuaded to the contrary.

When viewed not in the context of absolute virtue but in the narrower context of industrial planning, it will be evident that advertising and its related arts have a large social function. This extends on from the management of demand, the necessary counterpart of the control of prices, to the shaping of attitudes necessary for the performance and prestige of the industrial system. For advertising men it has long been a sore point that economists dismissed them as so much social waste. They

\(^{11}\) Robert Solow, "The New Industrial State or Son of Affluence," Public Interest, No. 9, Fall 1967.
have not quite known how to answer. Some have doubtless sensed that, in a society where wants are psychologically grounded, the instruments of access to the mind cannot be unimportant. They were right. The functions here identified may well be less exalted than the more demanding philosophers of the advertising industry might wish. But none can doubt their importance for the industrial system, given always the standards by which that system measures achievement and success.

"The consumer is, so to speak, the king... each is a voter who uses his votes to get things done that he wants done."
Paul Samuelson, *Economics.*

"The inescapable [fact] is that we're artificing a social machine for its own aggrandizement."
Paul Goodman, *People or Personnel.*

The time has come for yet another word of summary. In virtually all economic analysis and instruction, the initiative is assumed to lie with the consumer. In response to wants that originate within himself, or which are given to him by his environment, he buys goods and services in the market. The opportunities that result for making more or less money are the message of the market to producing firms. They respond to this message of the market and thus, ultimately, to the instruction of the consumer. The flow of instruction is in one direction—from the individual to the market to the producer. All this is affirmed, not inappropriately, by terminology that implies that all power lies with the consumer. This is called consumer sovereignty. There "is always a presumption of consumer sovereignty in the market economy." The unidirectional flow of instruction from consumer to market to producer may be denoted the Accepted Sequence.

1 Franklin M. Fisher, Zvi Griliches and Carl Kaysen, "The Cost of Automobile Model Changes Since 1949," *Journal of Political Economy,* Vol. 70, No. 5 (October 1962), p. 434. These three men are rightly among the most highly regarded of the modern generation of economic theorists. Their statement of the matter is exceptional for, at least by implication, they detach themselves from full acceptance of the notion of consumer sovereignty. It is merely the frame in which they work.