Introduction

Modern theories of the firm, which have emerged from criticisms of neo-classical microeconomics, are now subsumed in the domain called Economics of Organisation. This discipline includes the *purpose or existence of firms*, their *internal organisation* and their *boundaries* among its explananda (Douma and Schreuder 2008). The first to ask why firms exist was Ronald Coase, now widely recognised as the founder of modern theories of the firm. Coase (1937) believed that firms emerge under entrepreneurial coordination as a system of incomplete contractual relationships circumventing markets to organise exchange transactions more efficiently. Contrary to the neo-classical view, there *are* costs involved in operating a market, for example, the costs of searching for contracting parties, of negotiating and monitoring contracts and so on. Hence, firms emerge to reduce 'marketing costs' (Coase 1937, p. 392) (according to Klaes (2000), the first to coin the term 'transaction costs' was Marschak (1950)). Foxall (1999a) starts from Coase's work, focusing primarily on the purpose of firms, with the main contributions being: (a) the critical emphasis on customer acquisition and retention *and* transaction costs and (b) the introduction and use of an explicit operant psychology framework within which to analyse and explain the dynamics of contracts or firm relationships. Despite Coase's reference to the importance of marketing costs as being the onset for firms, most conceptualisations of the firm, including the dominant view (transaction costs economics), relegate customers to passive sources of demand.

In contrast, the theory of the marketing firm proposes that firms emerge to acquire and retain customers *in parallel* to economising on transaction costs. And, correctly so, for the most persistent memory of the first author's two-decade experience in industry as a marketing practitioner is the constant preoccupation with customer acquisition, retention, market share and improving return on marketing investment.

Similar to his approach in consumer behaviour, Foxall (1999a) addresses the existence and purpose of firms from an operant psychology perspective, or the approach within psychology that regards the study of human behaviour as determined by the context within which it occurs. Operant psychology assumes that an individual emits behaviour that operates (hence the term 'operant') on the environment to produce positive and negative outcomes or consequences which, in turn, as stimuli, determine the future rate of emission of that behaviour (Foxall 1990). For example, the purchase of a particular brand of ice-cream has utilitarian benefits (a refreshing confection on a hot day) and symbolic benefits (Birds Eye Wall's ice-cream freezer cabinets in current use depict a hip young tanned lad with 'cool shades' symbolising a particular life-style). Purchasing premium ice-cream comes at a price or negative consequence: the surrender of money in exchange for the product. Such positive and negative outcomes impinge on a consumer's behaviour over her learning history – the consequences of buying ice-cream are (a) reinforcing when the rate of purchase and consumption increases the likelihood of the consumer buying and eating ice-cream again in future, and (b) punishing when the likelihood of buying ice-cream in future decreases. Marketers deposit programmed stimuli in the environment to signal the positive outcomes of purchasing and consuming ice-cream. These stimuli come to control consumer behaviour by virtue of learning history within the purchase and consumption situation (Foxall 1997a).

From this perspective, therefore, understanding firm behaviour requires focusing on its observed function: What has behaviour accomplished? What are the consequences produced upon the environment? Which stimuli signal these outcomes and, thus, influence behaviour because of learning history (Baum 1994; Foxall 1997a)? If firms do exist to market, then firm behaviour of import is evident in the firm's marketing strategies embodied in the marketing mix, and its consequences are inexorably linked to consumer behaviour and, in turn, to the outcomes of such consumer behaviour. Marketers and consumers are thus linked by deep interdependent and reciprocal relationships that are mutually reinforcing. Such reciprocal relationships are known as bilateral contingencies and are not limited to Supplier↔Customer[1] relationships: in fact, the theory of the marketing firm holds that all firm individual relationships, including those held with competitors, are bilateral contingencies. Mutual reinforcement, in Supplier↔Customer relationships, is primarily contingent upon literal economic exchange, i.e. the exchange of products or services for money (Foxall 1999a).

Running counter to Coase (1937), Foxall claims that firms *circumscribe* marketing relationships and lock buyers and sellers in bilateral contingency relationships to render exchange transactions more predictable, more stable and, hence, more controllable. This idea of predictability and controllability does not simply stem from the theory's underlying operant paradigm:[2] economists have already contemplated this notion, for example, emphasising how firms seek to better forecast their production runs. Trading partners cement their cooperation through goodwill, contracts or some degree of shareholding (Richardson 1972, p. 884). This position appears to imply circumscription through informal or formal relationships for stability.

The theory of the marketing firm proposes two central strategic functions of firm behaviour within these mutually reinforcing relationships: (a) managing the consumer behaviour environment through elements of the marketing mix to control the behaviour alternatives available to consumers insofar as compelling them to act in particular ways; and (b) creating marketing programmes that signal and highlight the instrumental and symbolic benefits of purchase and consumption. Both strategies encourage consumer behaviour that is advantageous to the marketer and, naturally, detrimental to competition (Foxall 1999a).

The theory of the marketing firm remains largely an interpretation and requires an empirical investigation to evaluate critically its explanatory power by substantiating, or otherwise, its central claims: this research is such an investigative evaluation. It is a methodological piece that assumes the operant paradigm to accomplish its objective: *to generate an empirically based evaluation and resultant insights into the theory of the marketing firm through the construction of adequate operational measures and the application of such measures to qualitative data*. The research is positivist *and* qualitative, embracing the position that the term 'qualitative' simply refers to a method for collecting particular kinds of data useful and appropriate irrespective of worldviews (Guba and Lincoln 1994; Miles and Huberman 1994; Myers 1997). A case study design is adopted and populated by secondary data obtained from the UK Competition Commission in the form of a publicly available inquiry report entitled *The Supply of Impulse Ice Cream: A Report on the Supply in the UK of Ice Cream Purchased for Immediate Consumption* published in January 2000. The report is an in-depth investigation into the existence of a monopoly situation in the UK impulse ice-cream market. The dataset was chosen because of its immediate availability and its relatively extensive and exhaustive description of firm behaviour.

The focus is on three sets of bilateral contingencies:

- Manufacturer↔Distributor (Supplier↔Customer);
- Manufacturer↔Retailer (Supplier↔Customer); and
- Manufacturer↔Rival (Supplier↔Supplier).

Hence, the central research question is: *How adequately does the theory of the marketing firm explain the marketing behaviour of premium brand manufacturers in their bilateral contingency relationships with rivals,* *distributors and retailers, vis-à-vis the supply of wrapped impulse ice-cream in the United Kingdom?*

Our principal contribution is to extend the theory of the marketing firm through an empirically-based critical evaluation and the development of a case study methodology appropriate for an operant approach. The full rationale for this approach and the research programme within which our analysis of the marketing firm takes place can be found in Foxall (2007, 2010), which explicate the reasons for initially adopting a behaviourist paradigm and the subsequent roles of intentional and cognitive explanations. This book is concerned with the translation of that methodology from the analysis of consumer behaviour to the associated analysis of the corporation. It is confined to the initial stage of explanation based on operant analysis. This enables us to propose a methodology, which we understand as an epistemological device that incorporates a theoretical position, the technical measures it requires, and the relationships between them, which others, we urge, might use to analyse both our data and similar case histories to generate comparative evaluations of both theory and method.

Chapter 1 reproduces the original paper on the marketing firm (Foxall 1999a), slightly revised, as a point of reference for the remainder of the book. Chapter 2 explains the theoretical background to the theory of the marketing firm, bringing to bear its main concepts in an attempt to deepen the otherwise current 'broad brush image' presented in that paper (Foxall 1999c, p. 245) of the marketing firm. Since the aim of the book is to develop a methodology for evaluating the theory of the marketing firm, this chapter focuses on specifying a model of the firm in the light of the Behavioural Perspective Model of consumer choice as a prelude to the operational measurement of the theory in terms of the selected data (see also Chapters 3 and 4). The evaluation is a backdrop for the derived research propositions that guide the operationalisation of the construct (Chapter 4). The data is analysed in Chapter 5 and discussed in Chapter 6. Chapter 7 points out some limitations, areas for further research and general conclusions.

NOTES

1. The notation '↔' denotes a bilateral contingency.
2. Operant behaviourism is the philosophy of science undergirding operant psychology and is examined in Chapter 3. Suffice it to say, the operant paradigm seeks to explain behaviour for prediction and control (Baum 1994).