Towards a theory of marketing systems

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Abstract

Purpose – As specialisation takes root in human communities, the economics of scale and of diversity come into play. Scale leads to product markets, specialised firms, channels, and to industries. Diversity generates peasant markets, shopping malls, and business eco-systems. These outcomes are all examples of marketing systems, and are typical of the patterns that emerge, grow, adapt and evolve in complex transaction flows. Marketing systems are multi-level, path dependent, dynamic systems, embedded within a social matrix, and interacting with institutional and knowledge environments. The purpose of this paper is to outline a number of propositions that might serve as a basis for a theory of marketing systems.

Design/methodology/approach – The paper draws on historical research into the evolution of exchange and on examples of markets and exchange practices from marketing, anthropology, sociology, and economics. It utilises results from complex adaptive systems theory, from the networks and markets literatures, and from ecology, to formulate a series of propositions that identify properties believed to be common to all marketing systems.

Findings – Marketing systems are identified and categorized as emergent patterns in flows of transactions. In total, 12 foundational propositions are suggested. The propositions are complementary to those suggested by S-D logic.

Originality/value – This paper offers a fresh approach to the study of marketing systems, developing relevant theory. Marketing systems link micro choices with macro outcomes, with implications ranging from disaster recovery to distributive justice and QOL outcomes.

Keywords Marketing systems, Marketing theory

Paper type Conceptual paper

Adapting slightly the definition suggested by Layton (2007, 2008), a marketing system can be defined as follows.

A marketing system is:

- a network of individuals, groups and/or entities;
- embedded in a social matrix;
- linked directly or indirectly through sequential or shared participation in economic exchange;
- which jointly and/or collectively creates economic value with and for customers, through the offer of;
- assortments of products, services, experiences and ideas; and
- that emerge in response to or anticipation of customer demand.

An earlier version of this paper was presented at the Forum on Markets and Marketing: Extending S-D Logic, held in Sydney in December 2008 and benefited from the discussion. It now draws on this debate and on Layton (2009a, b) to restate the basic ideas.

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Marketing systems are to be found everywhere – from primitive tribal societies to advanced western economies. They can take many forms, from simple barter within and between small groups, to the trading networks linking Asia and Western Europe over a millennium ago, to the complex networks of small and large enterprise linked in the creation and delivery of the goods, services, experiences and ideas that underpin contemporary society. They range from a single act of exchange involving a seller and buyer, to complex interactions involving multiple sellers, many buyers, and an ever-widening range of traded objects. They include value chains and service systems, peasant markets and shopping malls, artisans and business eco-systems, networks for private gain and for social benefit. In each case, it is acts of voluntary economic exchange that define the core of a marketing system. While each of these examples and those like them can be studied from many points of view, it is the voluntary economic exchange of single or multiple goods, services, experiences and ideas that is central to the concept of a marketing system.

Marketing systems have their origin in the trade imperative, where individuals realise that gains are possible through specialization. As specialization deepens, markets form, more people become involved, trade networks develop, linking communities and introducing cultural change and diversity. As these changes take place, marketing systems emerge, grow, adapt and evolve. They cooperate and compete, sometimes merging, sometimes collapsing. They are dynamic, rarely in equilibrium. They are multilevel, recursive in nature, with systems forming and reforming within systems, interacting with systems at higher and lower levels of aggregation. They influence and are influenced by the institutional and knowledge environments in which they are active. They occupy the middle ground between individual buyer and seller decision processes and outcomes, and the aggregate marketing system (Cox *et al.*, 1965; Fisk, 1967; Wilkie and Moore, 1999). The efficiency and effectiveness with which each individual marketing system does what it does, is a critical determinant of the quality of life in all societies.

Following the lead of Lusch (1987), and Vargo and Lusch (2004), the first of 12 propositions central to a theory of marketing systems can be stated as follows:

P1. Marketing systems are complex, adaptive multi-level systems.

As such, they can be expected to show characteristics of non-linearity in key relationships, to generate emergent order, to be characterised by path dependence over time and discontinuity, and to be loosely coupled, falling dynamically somewhere between equilibrium and chaos, between anarchy and control.

Embedded exchange

As Adam Smith noted, an immediate consequence of specialization and division of labor is growth in both the volume and diversity of traded goods and services. For both consumers and producers the decision to trade, in principle, turns on access to an ever-widening and diverse set of markets. Consumers seek to acquire assortments that match their needs, and producers seek to put together product combinations that build on accessing distinctive competences, reaping the benefits of specialization through increasing returns. With specialization the trade networks linking sellers and buyers become increasingly dense and the emergence of macro structures such as marketing systems becomes more likely. Since exchange is not cost-free and increasing returns are available, further specialization in trade related roles and functions are also likely. Over time, changing technologies flowing from the growth of knowledge, combined with often far-reaching change in culture, economy and institutional structures, contribute to reducing or managing transaction and coordination costs, to facilitating the transactions needed for the system to function, and in generating successive waves of innovation create new sets of needs on the part of consumers (Bharadwaj *et al.*, 2005).

What began then as more or less isolated trade between individuals seeking mutual benefit quickly evolves into increasingly complex patterns of trade involving individuals, as well as communities, interacting in space and time to create diversity and depth in traded goods, and services. These complex, dynamic patterns in the flows of exchange that form, grow, evolve and sometimes disappear are marketing systems. Their structure and function is deeply influenced by the institutional and knowledge environments in which they arise, and by the immediate social, cultural contexts impacting the everyday lives of the participants.

This suggests the second proposition:

P2. Economic exchange is always embedded in a marketing system.

This proposition establishes the first stage in a bridge linking micro with macro marketing-phenomena.

Social matrix as context

As noted previously, exchange transactions involving the exchange of economic value are always embedded in a marketing system. It is now suggested that marketing systems are in turn always embedded in a social matrix (Varman and Costa, 2008; Chandler and Vargo, 2008). The social matrix provides the context for the social contract on which all exchange depends.

The origins of trade can be found in the human talent for exchange based on mutual cooperation. Initially grounded in kinship, then in reciprocity within small groups, cooperation in a wider context came to depend on the acceptance and shared understanding of an implicit social contract by individuals who were not kin, not group members, and most often strangers (Seabright, 2004). The resulting patterns of exchange reflect the culture, environment, level, and development path of the communities involved and will in particular be influenced by factors such as the position, power, communication links and capabilities of the individuals. This suggests the third proposition:

P3. Marketing systems are always embedded in a social matrix.

Once the marketing system or systems of interest have been identified, the social matrix in, which the system and/or its major components are embedded, can be specified. Examples of embedded marketing systems where the importance of the social matrix is evident can be found in the study by Rabo (2005) of traders in the *souk* of Aleppo, the historical analysis of the trans-Sahara caravans by Lydon (2008) where each caravan can be thought of as a mobile marketing system, or the sociological insights into the US shopping mall provided by Underhill (2004). Varman and Costa

(2008) highlight the importance of embedding a marketing system in a social context, in a detailed study of the Bijoygarth marketplace in Calcutta, reconstructing "the market as a socially embedded institution in which community ties are formed and sustained" (p. 141). In each case the social matrix shapes and is shaped by the structure and functioning of embedded marketing systems.

Assortments

In a multi-level marketing system, assortments of goods, services, experiences and ideas will usually arise at many points in each of the different levels. At a micro level a seller's offer will often include more than one product or service, and will on occasion be differentiated from that of another seller by a willingness to involve a buyer in the co-creation of value. At a meso level where micro level systems are aggregated into complex sequences of offers and acceptances, each contributing to an end-user assortment through the creation or co-creation of value, assortments arise wherever sellers and buyers interact. For the community served by the meso level system, the assortment or heterogeneous set of goods, services, experiences and ideas offered to ultimate customers is a direct indicator of the success or failure of the system to perform. At a macro, economy-wide level the aggregate marketing system offers an even richer array of goods, services, experiences and ideas to ultimate customers (Cox *et al.*, 1965; Fisk, 1967; Wilkie and Moore, 1999). At each level and at any point failure to meet buyer needs in offered and accessible assortments will directly affect the effectiveness of the aggregate marketing system.

The next proposition then can be stated as follows:

P4. The primary function of a marketing system is to offer customers an assortment consisting of a heterogeneous set of goods, services, experiences and ideas.

Assortments at any point in the operation of a marketing system may be looked at in terms of what is offered, what customers are seeking (the potency of an assortment noted by Alderson in, 1965), what is in fact accessible to potential customers, and then in terms of what is acquired and accumulated. While it is obvious that each of these assortment concepts – offered and sought, accessible, acquired, and accumulated – is closely related, the links between each are not well understood. Retailing studies have looked at customer responses to store assortments, and in particular at the composition of the resulting shopping baskets. Shopping centre design has been concerned with the optimal mix or assortment of stores to include in a centre, and with the mix of service attributes to be offered. Product line policies have been explored in the marketing and strategic management literatures. Variety, in global trade, flowing from comparative advantage, has been considered, by economists, and, more generally, by geographers. The need to move beyond one-dimensional analyses of product/service offers is clear.

Alderson (1965) pointed out that assortments at any point in a marketing system could be discrepant. This happens when a significant number of customers look for something in an accessible assortment and do not find it, or reject what is available. If the underlying issue is one of accessibility then some redesign of the marketing system may be sufficient. However, if the cause goes deeper and reflects persisting shifts in customer preferences and interests then the marketing system is discrepant, leading to innovation and thus changes in the assortment on offer. The innovations introduced in this way are important drivers of overall economic growth (Baumol, 2002), responding to continuous or discontinuous change in the technological and institutional environments. The ability of a marketing system to identify and respond to these shifts is an important factor in determining its overall effectiveness.

Proposition five then becomes:

P5. Persistent discrepancy in marketing systems is a driver of innovation and contributes directly to economic growth.

Will assortments – offered and acquired – continue to expand? While it is evident that assortments in primitive exchange or seen under conditions of poverty, were much more limited (both width and depth) than those on offer today, for many critics of contemporary marketing continued growth is a possibility that raises significant concerns. Schwartz (2004) writing on the paradox of choice asked why more is often less. He suggests that the culture of abundance robs us of satisfaction. Paul Stiles (2005) expressed similar concerns in his exploration of the market and community in contemporary America. And many observers express growing concern at the implications of an ever-expanding assortment for sustainability. However, the contribution of assortments generated by a marketing system will usually be positive but may be negative and is not likely to be uniform for each of the customer groups served by a marketing system. This raises important issues of distributive justice (Laczniak and Santos, 2008), and leads to the next proposition:

P6. The assortments generated by a marketing system contribute directly to the quality of life of the customer communities.

Classifying marketing systems

While there are many possibilities in classifying marketing systems, two will be considered here. The first relates to the level of aggregation of the system that is under consideration. The simplest marketing system is one involving a single seller and a single buyer. Extended to consider a set of similar sellers and a set or sets of buyers, engaging in exchange under conditions of perfect or, in practice, highly imperfect knowledge, this is the micro marketing system most studied in contemporary microeconomics and micro or managerial marketing. The transaction or flow of transactions takes place within a specified social matrix and/or wider environment, and interest centres on the decision processes and their outcomes adopted by both sellers and buyers. Sellers may and often will be complex organisations, and often marketing systems in their own right. Buyers may be individuals, households or organizations. The relationships that form between seller and buyer over time in a series of repeated transactions may be of central interest. In particular, the basis for exchange will often, if not always, be grounded in service, with value being co-created through the interactions between seller and buyer, and "always uniquely and phenomenologically determined by the beneficiary" (Vargo and Lusch, 2008, p. 7).

At a slightly higher or meso, level of aggregation, a marketing system may form around groups or clusters of sellers (firms) offering similar or mutually supporting products/services to groups of buyers; or a number of firms may cooperate for example in creating supply chains or global commodity chains; or sellers congregate in a market-place, shopping strip or mall. Here too, the participating entities may be micro or meso level systems, competing or cooperating within the context of a system at a slightly higher of aggregation.

An understanding of meso level marketing systems will typically turn on an analysis of the interactions between and among systems at higher and lower levels of aggregation, something that is a continuing challenge in many of the social sciences (Liljenstrom and Svedin, 2005). Finally, there is a macro level of analysis, illustrated by the work of Wilkie and Moore (1999). When the marketing system is referred to it is usually this level of analysis that is in mind.

The specific path and time taken in the evolution of a marketing system is deeply influenced by many factors, including the formal and informal rules, beliefs, and norms held by the community within which the marketing system is evolving (Gudeman, 2001). In addition there are the constraints and opportunities created by religion, geography, history and physical infrastructure such as distance or isolation; ease of access by sea, river or land; resource endowments; and the cumulative effects of past history. For the most part, factors such as these change slowly, establishing the "limits of the possible" in the growth and operation of marketing systems at all levels of aggregation (Braudel, 1979, Clark, 2007).

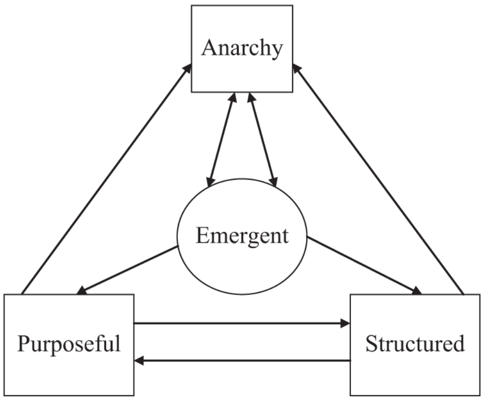
A second set of factors that shape the development path is to be found in the changing technology set open to system participants. These may change swiftly, without warning, and have far reaching consequences, facilitating the evolution of new organizational forms, widening and deepening the assortments offered and sought, linking markets otherwise separate, and changing perceptions of costs, time and distance. The development of social technologies such as the joint stock company, mass production methods, the multi-divisional enterprise, and networked alliances, together with physical technologies such as the camel saddle, compass, sailing ship, steam power, railroads, telephone and wireless communication, air travel, computers, internet and virtual worlds, would all appear on a list of the technologies that significantly extended the scale and reach of pre-existing marketing systems. These two sets of factors together at an appropriate level of aggregation constitute the institutional-knowledge (IK) environment for a marketing system.

With this in mind:

P7. Marketing systems are influenced by and influence the institutional and knowledge environments in which they are located.

A second approach to the classification of marketing systems focuses on structure and dynamics. Looking back over the examples of marketing systems cited earlier four broad recurring patterns could be identified (Layton, 2009a). These are labelled autarchic, emergent, structured and purposeful. While it is likely, that these will follow a sequence over time, beginning with autarchy, then to emergent as marketing systems begin to form in flows of transactions, then to either structured or purposeful depending on external pressures and internal forces, this is not inevitable. The possibilities are illustrated in Figure 1.

Beginning with autarchic systems, these are found in settings where individuals or households are largely self-sufficient, poorly informed outside the immediate family or group, and include barter or sharing within and between households. In the absence of



Source: Based on Layton (2009b)

Figure 1.
Growth, emergence and evolution in marketing systems

external change these marketing systems may be long lived, constituting a relatively low level equilibrium. While most examples are to be found in anthropological studies of foraging or subsistence societies (see Johnson and Earle, 2000), it is also possible that disaster, whether due to causes such as nature, war, disease, or simply a consequence of systemic collapse brought about by a combination of internal dynamics and failures in external environmental regulation or control, may reduce a sophisticated marketing system to something close to autarchy.

Autarchic systems may drift towards emergent systems as the benefits of specialization are exploited, a process that is influenced by the increasing diversity over time of household needs and wants, population growth and agglomeration (Gudeman, 2001). As this process takes hold the limitations of tight social control become obvious and competition is increasingly substituted for regulated or socially controlled outcomes. As a basis for trust in exchange is established, trade within and between communities grows; assortments offered and sought widen and deepen; an acceptable medium of exchange is identified and measurements standardized; and localised coherent prices are agreed. As these initial steps are taken, transitory marketplaces located at crossroads or under trees become fixed markets and trade volumes increase; hawkers or street vendors and other mobile traders are established to supplement the fixed market traders, and as links between markets begin to develop, rotating or regional markets emerge. As groups of traders form into firms, associations or networks to reduce costs and exploit increasing returns the marketing systems become increasingly complex. Product differentiation and local brands take root; specialist sub-markets develop; and specialist roles such as those associated with retailing, wholesaling, brokers or agents, the provision of credit or finance, information sources, and enforcement mechanisms emerge. Where and when some or all of these patterns can be identified the marketing system can be called emergent.

The transition from an emergent system to one that is structured or purposeful is one that transforms traditional market structures in emergent marketing systems into systems capable of rapid growth and sustained transformation. The critical driver in this transformation is the emergence of corporate entities. Initially tried in an emerging marketing system as a family or cooperative response to an opportunity to fill a market gap, reduce costs, cope with uncertainty or perhaps to exploit an accessible resource or skill set in making or selling, the benefits of a corporate form quickly became apparent to participants. With the passage of time, dealing with an increasingly complex institutional environment, or exploiting new technologies, often required increased scale in corporate activities. New organizational forms then emerged based on alliances or networks of cooperating enterprises that would further enhance a fit between organizational design, competitive strategy and environment. In this way, emergent marketing systems morph into structured or purposeful systems.

Structured marketing systems typically comprise many corporate entities, each of which in isolation could be considered a purposeful or a structured system, which may range in size from small to very large, and include single firms, as well as alliances or networks of firms cooperating in production, distribution, or innovation. A structured marketing system may simply comprise a vertical or horizontal network of collaborative relationships linking individuals and entities in the marketing system (Granovetter, 1985; Normann and Ramirez, 1998; Wilkinson, 2001, 2008) The strength of each relationship reflects the economic and social investment made in the relationship by the parties involved. The network as a whole (the individuals and entities that act as nodes and the links or ties between these nodes) has a structure where power or authority flows from position within the network and which is an important determinant of overall capacity to respond to external challenge or change. Cooperation and competition may coexist in structured exchange as individuals and entities seek to build on existing links or to form new links with current or potential participants. In some situations competition develops into hypercompetition where competitive advantage is quickly eroded by forces such as disruptive technologies, unexpected shifts in customer preferences, the entry and exit of new participants, deregulation and the invention of new business models.

Examples of structured marketing systems range from *salaula*, the multi-participant marketing system for second hand clothing in Zambia, where small scale networks of African agents and merchants compete in local city markets (Hansen, 2000), to the broader apparel industry in many countries where small and large scale networks of firms have existed for hundreds of years. Other examples of structured marketing systems include shopping malls, medinas, or bazaars, the wholesale markets on the outskirts of most large cities, many of the business networks studied by the IMP group (Wilkinson, 2008), and at a macro level the aggregate marketing system.

In a purposeful marketing system the distinguishing characteristic is the use of economic or political power to direct flows of transactions in ways that contribute to the goals of the entity exercising power. Most vertical marketing systems fall into this group, from simple structures involving a direct manufacturer/retailer relationship to the complex supply chains established by leading retailers such as Wal-Mart in the USA. Other examples include the international franchising activities of brands such as Starbucks or McDonalds, the manufacturing/distribution structures created by the large automobile companies and pharmaceutical firms, or the integrated resource networks of companies such as BP and BHP-Billiton.

Somewhere between purposeful and structured marketing systems, depending on the degree of centralized control, are the business ecosystems discussed by Moore (1996) and Iansiti and Levien (2004), and the service ecosystems or value networks studied by Lusch *et al.* (2009). A business ecosystem can be thought of as a large number of loosely connected participants, often individually purposeful, acting as a community, each relying for mutual effectiveness and survival on each other through a complex web of interdependencies. A service ecosystem has been defined by Lusch *et al.* (2009) as a "spontaneously sensing and responding spatial and temporal structure of largely loosely coupled value proposing social and economic actors interacting through institutions, technology and language to:

- co-produce service offerings;
- exchange service offerings; and
- co-create value".

While a business ecosystem is a broadly descriptive label, the concept of a service ecosystem is more focussed, emphasising value-creating outcomes brought about through service. Both blend elements of purposeful and structured marketing systems and both are examples of marketing systems.

The growth of business ecosystems illustrates the shifting boundaries between the two patterns. A need to increase access to essential resources, a drive to widen offered assortments, to acquire new skills, or to reduce costs may lead managers in a purposeful system to trade control for cooperation, to outsource non-core activities, to engage in cost-sharing collaborative research, all of which will move the system towards a more structured pattern. The open business models explored by Chesbrough (2006) provide examples. Alternatively, conflicts as to direction, perceived inequity in the allocation of rewards across a network, and external pressures related to scarce resources are all factors that might combine to lead managers to seek overall control, moving the system towards a more purposeful model.

These considerations lead to the next two propositions:

P8. The entities comprising a marketing system may themselves be marketing systems.

P9. Marketing systems are inherently dynamic and often unstable.

The elements of a marketing system

The major structural and functional elements of a marketing system are shown in Figure 2. These are the exchange logics and contexts found in the marketing system, system flows and roles, network structure and governance, the assortments created and delivered and the many customer groups (intermediate and final) whose needs are served by the operation of the marketing system. It is the interaction of all these

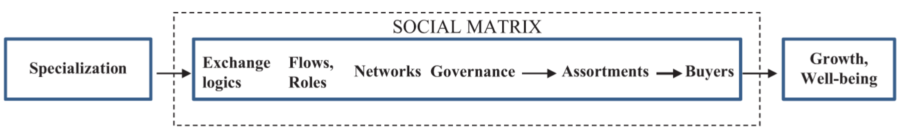


Figure 2.
The essential components

elements within and between component marketing systems at differing levels of aggregation and their interdependence on the environmental drivers of institutions and knowledge that are primary determinants of the micro-macro interface in marketing phenomena.

While the story begins with specialization and ends with economic growth and contributions to societal well being, and quality of life, it is the interactions between the elements shown previously that will determine both the efficiency and effectiveness of a marketing system. Typically, each of these elements will include a heterogeneous mix of components. For example, the marketing system in an Indonesian town that supports daily life in the household sector will include exchange logics ranging from barter, to bargaining to outright sale, in settings that range from a central marketplace to a supermarket. The transactions that occur might involve credit, perhaps credit cards, in the supermarket settings, or mixtures of cash and barter; logistics range from lorries to becaks, and bicycles; information flows might be intense and localized or widespread and electronic based. Similarly, roles are diversified, differing between a formal, market-based set of specializations and the informal, day to day exchanges in central and local markets. Within an overall network, localized networks with differing degrees of centralization and density will be found. Governance principles will range from the abstract rule of commercial law to situations where trust based on personal knowledge is a determinant feature. Assortments will arise in many locations wherever trade occurs perhaps between individual households where the width and depth of the assortment offered will be restricted, to the assortments offered by wholesale merchants, to those found in central markets or supermarkets. Customer groups will include many who are illiterate or innumerate, as well as the well educated and affluent. In most marketing systems structural and functional heterogeneity is an inevitable feature.

Exchange logics and contexts

The exchange logics and contexts associated with a transaction set at the core of a marketing system can range from simple planned or unplanned choices akin to those made in a supermarket shopping trip, to complex multi-party negotiations. Transaction costs, both fixed and variable, perceived by participants, may be trivial, but will often be substantial, and linked to the flows of ownership, possession, risk, finance and information that are associated with the exchange processes involved in the transaction set.

The wider physical contexts within which these exchanges take place are also often important and for a marketing system of interest may range from simple open-air markets to cyberspace settings, from sophisticated offices to shopping malls. The social experience associated with exchange, simple or sophisticated, is often pleasurable and a valued part of the transaction. This can be seen, not only in a peasant marketplace, but also in contemporary shopping malls where owners strive to make shopping more than a necessary household activity, providing meeting places and facilities for community activity (Oldenburg, 2001). Safety, hygiene, access and communication are all important factors influencing the viability of an exchange context.

The content of these exchanges centre on the value propositions made by sellers, expressed through products, services, experiences and ideas, often bundled together, which will usually require close cooperation between buyers and sellers in the co-creation of value outcomes. The values sought by the participants in exchange may be economic and/or non-economic in nature; the exchange may be fully or partially informed, legal or illegal, bilateral or multilateral. Much may depend on whether the exchange is seen as a once-off event or as part of a long-term pattern or relationship.

A marketing system then will both define and be defined by the transaction set, the exchange logics that will apply and the exchange contexts within which the transactions are carried out. Underlying this specification process is a choice of a level of aggregation and a characterization of the system boundaries that are appropriate in an analysis of the marketing system under consideration. This will often be an iterative process involving consideration of both higher and lower level system specifications.

Flows

For a marketing system to function effectively in the creation and delivery of assortments, several parallel, coordinated, and mutually supporting economic flows must take place. These include a flow from sellers to buyers of specified ownership rights to the economic values transferred; a flow of possession from sellers to buyers where each in turn gains acceptable access to, or possession of the economic value inherent in the products, services, experiences and ideas being exchanged; a flow over time and space of money or equivalents in the form of a payments systems that can be used to make possible the completion of the underlying transactions; a flow of risk, shifted from sellers to buyers as exchange takes place, that are known and understood by the parties concerned; and finally an accessible flow of the information needed to bring buyers and sellers together, and to allow informed exchange to take place.

Underlying these flows are the economic, social, cultural and physical characteristics of the social matrix in which the marketing system is embedded, in turn reflecting the wider evolving or changing environments of institutions and knowledge. In contemporary markets the problems associated with the transfer or preservation of intellectual property are well known. Codes of conduct, cultural norms and legal rules are essential elements in defining ownership.

Possession may or may not coincide with ownership and, for physical products, adds a spatial and logistics dimension (location of markets, transport, storage, transformation, display and despatch) to the operation of a marketing system. Physical infrastructure is an essential element in the flow of possession and does much to determine both the efficiency and effectiveness of a marketing system.

Risk is inherent in the operation of a marketing system and deeply influenced by the social matrix in which the marketing system is embedded. When sellers and buyers are known to each other, perhaps as members of a community, perhaps through repeated exchange, the risk of a failed transaction is low, and subject to community sanctions. As transactions shift towards the impersonal and complex, performance risk increases for all parties, and is governed by emerging norms, rules and laws. The elaborate, high-level protections needed to facilitate internet markets illustrate the challenges.

And then there is money. The inefficiencies of simple barter soon persuaded sellers and buyers to agree on a common measure of value. While initially culturally determined, cash in one form or another soon took over and now the flows of cash or cash equivalents are an essential element in the functioning of a marketing system. The micro-finance offered by the Grameen Bank in Bangladesh and elsewhere, the development of bond markets, and the rapid growth of markets in financial derivatives, are examples of the innovations that have underpinned the evolution of complex, multilevel marketing systems.

Finally, in order for exchange to take place buyers and sellers must be brought directly or indirectly into contact. Of necessity there must be a flow of information underpinning the exchange. As with the flows of money or cash, intermediaries, and specialist providers soon emerged, as marketing systems grew more complex. These providers today include both public and private sector sources of information. Examples include advertising agencies, market research firms, consultancies, and specialists in specific markets or market sectors. As for each of these flows essential to the operation of a marketing system, information flows are deeply influenced by the economic, social and cultural factors in the social matrix, and these in turn are dependent on longer run (but occasionally abrupt or discontinuous) change in the institutional and knowledge environments. An example of these changes is the rapid shift towards customer power occurring in many markets, brought about by the new digital technologies of iPods, mobile phones, Blackberries and other devices, linked through social networking sites such as Facebook.

Where there are subsets of the transaction flows in which one or more of these flows are absent, or unbalanced (e.g. inadequate access, information asymmetries, lack of customer feedback, breakdown in trust, limited ability to find finance, fraud, infrastructure failures), a marketing system will lose in efficiency and in the effectiveness with which it meets community needs and interests. Here, external events such as war, natural disaster, or economic breakdown, may be determining factors and it becomes important to reinstate or rebuild each of the component flow systems.

Each of these flows, of ownership, possession, finance, risk and information, may generate role specialization based on distinctive resources, learned skills, and acquired network capabilities and may lead to the emergence of complementary or secondary marketing systems focussed on the provision of the services and facilities needed to sustain the flows in the primary system or systems. Examples include the emergence of financial and insurance markets, the growth of the facilities and event management industries, and of complex transport networks. It is also possible for growth in these secondary marketing systems to lead to a disconnect with the primary marketing systems, where value in exchange evolves separately from value in use, something that occurred in the 2009 "bubble" in global financial markets, and in the resulting need to re-establish working links between the marketing systems involved.

Roles

The participants in a marketing system range from individuals or households, to entities (e.g. firms, agencies, cooperatives), to marketing systems (markets, clusters, networks, alliances, partnerships, etc.) and will usually include the entities providing the essential support services associated with each of the flows of ownership, possession, finance, risk and information. Each participant fills one or more roles in the operation of a marketing system – households and firms may act as sellers or buyers or both; individuals and agencies may participate in information and risk/insurance flows as gatekeepers, providers, controllers; others will specialize in storage or transport, and others will fill the roles of regulator, adjudicator or enforcers.

Networks

The definition of a marketing system highlights the networks that lie at the core of any marketing system. The participants or actors in the network range from individuals, households or family groups, social or community groups, to entities such as firms, agencies, and in many situations depending on the level of aggregation involved, lower level marketing systems. The participants in a marketing system may include intermediate sellers and buyers, as well as ultimate customers. These individuals, groups or entities are linked directly or indirectly through sequential or shared participation in exchange transactions, jointly creating economic value, through the offer of assortments of products, services, experiences and ideas, provided in response to customer demand.

In many situations a marketing system can usefully be thought of as a network of networks where the interactions between networks at higher and lower levels of aggregation are likely to be of major interest. It may be important to locate a focal system in a context of parallel, competing or cooperating systems, linked sequentially with other marketing systems, and interdependent with complementary systems, perhaps concerned with flows of money or finance, risk or information. It may also be important to explore the links with micro or lower level systems where seller-buyer exchanges are taking place. In each case a system-environment analysis will help to identify key forces driving or shaping network performance.

Each seller or provider participant brings to a marketing system, experienced history, a growth dynamic, resource endowments and capabilities, assortments and customer groups (Hunt, 2000), and will cooperate or compete, directly or indirectly, on one or more of several dimensions including price, quality, availability, information and assortment (Baumol, 2002, p. 11) As Vargo and Lusch (2008) note both sellers and buyers are resource integrators.

The linkages between and within participants in a (multi-level) marketing system are important factors influencing function and system dynamics. Typically, the linkages are multi-dimensional, based often on direct trade relationships, but also involving power, influence, trust, and resting on bases including expertise and knowledge, network access, mutual understanding, kinship and family relationships, *guanxi* or obligation. Here again the social matrix in which the marketing system is embedded is an important determinant of network structure and dynamics.

Governance

The fourth element in a mapping of a marketing system is concerned with the overall governance of the system. One of the best known classifications is that due to Polanyi (Polanyi *et al.*, 1957) who suggested that the social problem of providing people with desired assortments could be solved in one of three ways:

(1) Reciprocity, usually involving families, kinship groups or neighbourhoods, in a "give and take of equivalent value over time" (Johnson and Earle, 2000).

(2) Redistribution, usually through allocations made by a central authority.

(3) Exchange, in which distribution is achieved through price making in markets.

In keeping with the transitions noted earlier, reciprocative and redistributive patterns are more likely to be found in autarchic or early emerging marketing systems, where trade shifts from a situation in which each individual is more or less self-sufficient, perhaps with some barter between producers, to one where patterns emerge in roles, location in space or time, and relationships (an emergent system). These in turn facilitate the formation of firms, groups or alliances and concentration of market power begins to develop (see Carroll and Hannan, 2000). With this concentration of market power comes an increasing variety of goods, services, experiences and ideas as firms capitalise on economies of scope as well as scale.

Customers

The remaining two elements to be considered in the mapping of a marketing system are the customers or customer groups and the assortments that bring producers and consumers together. The process begins with an identification of the customers or customer groups associated with a marketing system. These will often not be just end users but depending on the specification of the boundaries of the marketing system of interest, may also include intermediate purchasers of both goods and services and may on occasion be broadened to include stakeholders as well. At one level, customers may be thought of as individuals, households, managers or buying groups and centres, and at another be considered in aggregate as segments, groups, communities or regions.

The heterogeneity of the resource endowments or capabilities of purchasers, including capacity to pay, will be an important determinant of system functions and structure. In a negative sense, the consequences of lack of capability, such as might be experienced by illiterate or disabled purchasers are also important factors in system design. This leads directly to a review of demographics and of decision processes both at the individual and group level.

Assortments

As noted earlier, for most buyers/customers within a marketing system, it is the ability of the system to provide assortments that enable them to fulfil their needs and wants that will determine the perceived success or failure of the system. At the macro or aggregate level characteristics of the assortments offered will often be economically, socially and politically important. Restricted access to goods, services, experiences and ideas may lead to social disruption. Assortments that provide access to drugs, alcohol, or pornography are often unacceptable, leading to proscription of the marketing systems that generate these assortments. Assortments that encourage obesity, unsustainable energy use, or which may distract a population from the pursuit of socially important ends may also be discouraged. In each of these examples the assortments generated by marketing systems are highly visible indicators of the nature of a society, its values and its commitments. As such, over the years, many communities have sought to control or limit the assortments on offer, sometimes restricting access to markets, sometimes banning specific categories (often then creating black or underground markets for the goods or services), sometimes using taxation to raise prices beyond those which some people can pay, or perhaps through controls or regulations imposed on the marketing systems which have generated the assortments in question.

In summary then, the following propositions emerge:

P10. The specification of a marketing system requires detailed consideration of exchange logics and settings, roles, flows, networks, governance, customer groups and assortments.

P11. The effectiveness of a marketing system will be determined by its capacity to provide accessible assortments in response to changing customer needs for each of the customer groups it is intended to serve.

Here accessibility reflects spatial, time, communication, affordability and continuity considerations in the exchanges taking place within the system as customer groups seek to satisfy individual and/or collective goals. If this is to be achieved, attention must be given to the heterogeneity within each element of the marketing system, and to their interactions within the system, with higher, parallel and lower level systems, with the external social matrix, and with the wider institutional and knowledge (IK) environment.

While effectiveness can be thought of in terms of customer outcomes, efficiency is more difficult to pin down. Much depends on the extent to which a marketing system has evolved as the efficiency of the full system is deeply bound up with the efficiency of each sub-system. In the short term, the incidence and extent of the transaction costs facing sellers and buyers is tied to the nature and coverage of supporting infrastructure, and influenced by the stage of development overall and in each critical sub-system. Conflicting incentives and inadequate, decentralized information add to the difficulties to be resolved. Efficiency in the short term is enhanced when some or all of these transaction costs are minimised.

In the longer term some of the institutional barriers to efficiency may change – standards shifted, contract enforcement improved, regulatory systems modified, new or changed infrastructure constructed, and incentives carefully structured to support appropriate decision making by each participant. In particular, an efficient marketing system must be capable of innovative response to emerging opportunity. As Telser (1987) pointed out, both cooperation and competition are essential if real world markets are to move towards efficient outcomes. Nalebuff and Brandenburger (1996) took the analysis further in a strategic management setting asserting the relevance and importance of co-opetition.

These considerations point to the last of the 12 propositions:

P12. An efficient marketing system will in the short term seek to minimise transaction costs, and in the longer term to respond in an innovative and timely fashion to internal and external change with a balanced blend of cooperation and competition.

Looking forward

The examples of market processes explored here raise important questions for our understanding of marketing both in a positive and a normative sense. The highly evolved marketing systems found in the developed countries stand in sharp contrast with the primitive systems in which many people live everyday. In the developed world a myriad of entities interact over time and space, dealing with each other in ways that presume commercial order and trust, across national and cultural borders. In many of the under-developed countries or regions within countries, it is just these presumptions that cannot be made and the aggregate marketing systems remain dysfunctional, lacking the institutional and cultural preconditions for the evolution of functioning multi-level marketing systems.

Are these legitimate concerns for marketing? For marketing as a management science the concerns are real, but difficult or even impossible to address starting from a micro perspective. For marketing as a provisioning technology (Fisk, 1986) the concerns are also real, but the answers provided, often in the form of aid programs focussed on micro structures in the pursuit of social and economic development, are little known in the marketing literature and largely disconnected from the "marketing as management science" world. For marketing as a social discipline, focussed on the study of marketing systems, from both a micro and a macro perspective, and drawing on a developing set of insights into the micro-macro interface, the concerns are real and to an increasing extent resolvable. If so, then developing a theory of marketing systems may be an essential step to widening and deepening the scope of marketing thought, offering new horizons for our discipline.

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