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# A RECONSIDERATION ON THE FUNCTIONAL APPROACH TO MARKETING

by

*Yasura Suzuki*

## *The Functional Approach in Retrospect*

Various research into the problem of commerce in the United States have been oriented to market distribution or marketing. Although there is no definition of marketing generally agreed upon among specialists the Definition Committee of the American Marketing Association defines "marketing" as "a series of activities in the flow of goods from production to consumption" (1935), or as "business activities that transfer goods and services from producers to consumers or users" (1948).<sup>1)</sup> Various definitions given by many scholars differ little from one to another with a few variations in expression.

According to the above definition, marketing means business activities which transfer goods from producers to consumers. It is what is generally called marketing activity. The roles of distribution activity as an economic activity are marketing functions. Therefore, the understanding of marketing or marketing activities in an attempt to solve marketing problems should be started with the analysis of the *marketing functions*.

It is generally understood that A. W. Shaw was the first person who made an attempt to treat systematically the functional concept of distribution in the study of marketing in the United States. He published an article titled "Some Problems in Market Distribution" in the August, 1912 number of the Quarterly Journal of Economics, in which he listed, as the five functions of merchants; 1. Sharing of risk, 2. Transporting of goods, 3. Financing operations, 4. Selling communication of ideas about goods, and 5. Assembling, assorting, and reshipping.<sup>2)</sup> The merchant's functions raised by Shaw were modified by Weld and applied to the marketing processes as the entity. In other words, he pointed out that these functions are performed not solely by Middlemen; oftentimes producers themselves perform a large part of them and ultimate consumers, also, engage in a part of the marketing functions.<sup>3)</sup> Shaw

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(1) Cox and Alderson: *Theory in Marketing*, 1950, p. 265.

(2) A. W. Shaw: *Some Problems in Market Distribution*, 1915, p. 76.

(3) Cox and Alderson: *op. cit.*, p. 265.

further maintains that the study of the various marketing activities' functions enables us to understand marketing problems and to solve them. Vanderblue, also, maintains that the *Functional Approach* is to be the method of analyzing marketing problems. (Jour. Pol. Economy, Vol. 29)<sup>4)</sup>

It is surely a great accomplishment that Shaw firstly introduced the functional concept into marketing. However, that the contents of the functions he took up were poor and that he explained them as the Middlemen's functions left much to be studied further by a number of scholars coming later. Many scholars, in later attempts to analyze the marketing functions, deepened essential understanding on them, and presented one detailed classification after another. Thus, the Functional Approach came to have an important position indispensable in the studies of marketing. The big problem common to all the analyses of the Functional Approach is the relationship between the marketing *functions* and marketing *agencies*, i.e., the difficulty of clarifying the roles of each marketing agency at a respective process of the marketing functions, and a tendency to separate the immediate problems facing the functions from the structures for the performance of the functions, in mere analyses of the marketing functions. Jones pointed out three weaknesses in the already existing arguments for the Functional Approach. (Jour. Marketing Vol. 7) First, it does not clarify specific conditions on which the marketing functions should be performed. Second, it does not clarify the appropriateness of the marketing functions in the distribution of goods and services. Third, it does not clarify the distinction between the functions and the methods of performing the functions.<sup>5)</sup>

In 1934, Breyer, in sharp contrast to the traditional marketing discussions, presented a fundamentally new way of approach to this question.<sup>6)</sup> He advocated a marketing study based on the viewpoints of both market and social welfare, maintaining that the distribution system is a social tool aiming at the maximum benefit for the general public. When Breyer called attention to the necessity of studying the distribution system by an institutional approach as another method of studying marketing, the scholars in the field realized that a small change in their standings was called for. The *Institutional Approach* to marketing in the United States was greatly developed by two gentlemen, Messrs. Duddy and Revzan after World War II.<sup>7)</sup>

Most scholars agree to the opinion that the marketing activities are business activities which transfer goods from producers to consumers. As to the method of analysis and description of the marketing functions, however, they never agree with each other. It is understandable that, in such a country as the United States where applied research is active, marketing has been observed and analyzed from the standpoint of business administrators in many instances. There are, however, not a few scholars who attempt to consider it

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(4) P. N. Nystrom: *Marketing Handbook*, 1951, p. 22.

(5) *Ibid.*, p. 23.

(6) R. F. Breyer: *The Marketing Institution*, 1934.

(7) E. A. Duddy and D. A. Revzan: *Marketing-An Institutional Approach*, 1947, 1953.

from the social viewpoint. The typical example is a group of people who are concentrating on the Institutional Approach. However, in the Institutional Approach, the marketing functions are understood to be almost identical with the marketing activities or distribution processes.<sup>8)</sup> Accordingly, the marketing functions are, in this understanding, distribution activities and a kind of business activities. It was initially explained as merchants' activities but later defined as a kind of business activity in general, performed by producers in some cases. At the outset, especially conspicuous economic activities in the process of distribution were taken up as the marketing functions and explained individually and enumeratively. Later, through observation of functions peculiar to the distribution processes in which goods move from producers to consumers, they were *differentiated* from other economic activities; their characteristics were clarified; and an attempt to systematize them was made by determination of the degree of importance of each function. Extreme differences can be observed from one scholar to another as to the definition of the kinds of marketing functions. As for the standards of classification, too, there have been no unanimous consensus among the scholars. Some count seven or eight principal functions, while others classify as many as thirty or more. Such a large number of marketing functions counted by scholars are due to a confusion of the functions of marketing with those of merchants, or of activities of various forms of the Middlemen.<sup>9)</sup>

The purpose of the functional analysis in marketing is, by division of the marketing functions in terms of the distribution processes, to separate *essential* factors from *unessential* ones. The functional analysis makes it possible to evaluate various activities with respect to the ultimate objectives, thus enabling us to stress the necessary and to subordinate and exclude the unnecessary. Such an analysis gives us a general outlook over the marketing studies and helps us to clarify the role of the distribution processes in the construction of economic concepts and to understand changes in the structure of distribution.

From such a viewpoint, many a scholar has hitherto made careful observations and fine analyses of the marketing functions, of which a typical two will be discussed below.

The classification by Prof. F.E. Clark (Northwestern Univ.) is adopted by many other scholars and has since long been introduced in to this country.<sup>10)</sup> Included are; 1. Exchange functions (selling, assembling), 2. Substantial distribution functions (transporting, storing) 3. Auxiliary functions (financing, risk sharing, market information, standardization). Prof. Converse (Illinois Univ.), in contrast, lists the following; 1. Transporting, storing, packing, dividing, grading, and assembling as substantial transfer, 2. Determining property amount, creating or stimulating demand, discovery of sellers and buyers, contacting, advising and transfer of rights as ownership transfer, 3. Determination of management policy, finance installation, auditing, accounting, collection of in-

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(8) *Ibid.*, p. 6.

(9) P. N. Nystrom: *op. cit.*, p. 23.

(10) F. E. Clark: *Principles of Marketing*, 1947, p. 13.

formation, and risk sharing as distribution management.<sup>11)</sup>

The above two classifications of functions are typical in America today. Aside from the degree of simplification of division and the differences in their expressions, what is common to the two classifications is the distinction between the *primary or essential* functions as exchange or transfer of ownership and the substantial transfer functions and the *auxiliary* functions as those which seem to have universality in every field of economic activities.

In this country, too, expert classifications of marketing functions have been made by Dr. Mukai and Dr. Taniguchi. They both classify marketing functions into the primary or substantial and the secondary or auxiliary. Dr. Mukai lists mental labor functions as the primary and technical labor, capital raising and capital risking functions as the auxiliary<sup>12)</sup>, while Dr. Taniguchi counts personal exchange, assembly and distribution, supply-demand adjustment and price adjustment as the essential functions, and localization, timing determination, financing, risk taking and commodity standardization as the secondary.<sup>13)</sup>

Since the introduction by Shaw of the functional concept into the studies of marketing, observations and analyses of the marketing functions have been attempted by a number of scholars and researches into the characteristic functions peculiar to the distribution processes have been conducted. Today, no one would deny the characteristic position of the marketing functions in economic structures. Still in recent years, untiring efforts are continued toward analytical studies of the marketing functions. It has a relevance to the recent active discussions on the scientific nature of marketing theory.<sup>14)</sup>

What we can point out, following the historical development of the Functional Approach up to date, is that it has clarified the characteristics of the marketing functions and that it has made it possible to make evaluation of each function through systematization of the marketing functions formerly treated only individually and enumeratively. Its weakest point, however, seems to be in the yet unattempted research into the relationship between the marketing functions and the marketing agencies or marketing structure. It is mainly because it deals with the marketing functions as mere business activities, and it does so, not from the overall viewpoint of business administrators but from the individual and fragmental one. After the War, especially in recent years, the traditional attitude is beginning to be thoroughly modified. The recent business circle's attitude toward so-called marketing studies and its direction are indicative in this respect.

It was natural at the initial stage of the functional analyses that the marketing functions had been treated individually and enumeratively in the process of finding their essentials. As the essence of the marketing functions has been made

(11) Converse-Huegy-Mitchell: *The Element of Marketing*, 1952, pp. 63-64.

(12) Shikamatsu Mukai: *Haikyu Shijo Soshiki (Organization of Distribution Market)*, p. 128.

(13) Yoshihiko Taniguchi: *Haikyū Tsūron (Theory on Distribution)*, p. 91.

(14) Cox and Alderson: *op. cit.*, pp. 263-279.

E. D. McGarry: "Some Functions of Marketing Reconsidered".

Yūkichi Arakawa: *The Basis of Functionalist Approach in Marketing*. (Kokumin Keizai Zasshi, Vol. 97, No. 1.)

clearer, the mutual relationships between each function and their system have come to be regarded as the major issue. Here is generated such an attitude of observation from the overall social viewpoint as seen in the institutional approach. As pointed out earlier, however, the functional approach and the institutional approach up to date have been un-related to each other.

The one tries to see marketing functions merely from the *individual* viewpoint, and the other from the *over-all* viewpoint. The former makes no attempt to treat the functions comprehensively and systematically from the business administrator's viewpoint, merely dealing with each function individually. The latter, in spite of its concentration on the marketing agencies and marketing structure, treats the marketing functions merely as functions and describes the marketing agencies merely as performers of the marketing functions, emphasizing the institutional significance of the concept of marketing. Although it describes the role of each marketing agency as its function, it deals little with the question of *appropriateness* of the agencies for the corresponding functions, i.e., why a specific function needs a particular marketing agency. No organ exists without a function. With its function deprived, every organ loses its *raison d'être*. The existence and development of a function necessarily brings about those of its organ. Thus, in our opinion, the analytical studies of marketing functions must ultimately be done in connection with the marketing agencies and marketing structure. The question lies, therefore, in the fact that the research method or analyzation system for both approaches has been independent of each other.

We pointed out earlier that, although marketing activities had been treated as a series of business activities peculiar to the distribution processes, they had not been done so systematically from the over-all business management viewpoint. This, we think, separates the problems of the marketing functions from those of marketing agencies and of the marketing structure.

Due to the mass production necessitating voluminous handling, namely increased distribution volume per business unit, accompanying the shift of sellers' market to buyers', the marketing functions traditionally entrusted to merchants and other marketing agencies have been differentiated, or combined, or changed to some other agencies or completely excluded, with the final result of an extremely complicated picture. With such a situation developing in reality, the necessity of studying the marketing functions systematically and comprehensively in terms of the entire distribution process has come to be remarked. Even in this case, because of the fact that the emphasis is oftentimes laid on the marketing activities themselves as the expressed forms of the functions, the analyses of the functional aspects of the distribution activities, and of the inter-relationship among the functions, especially the relation of the functions with their performers, the marketing agencies, have been almost completely neglected. Attempts to observe the distribution activities comprehensively in terms of the entire processes have not been integrated with analyses of the marketing agencies or structures. Rather, observations have been made following distribution channels of a specific product. The distribution agency at each respective stage is considered to share

only a part of the marketing activities. The question which such an analysis is concerned with is how rationally and efficiently each marketing agency performs its own marketing activities. It tells very little as to the status and fate of each marketing agency within the entire marketing structure.

In retrospect, the Functional Approach in marketing theory up to date has as its greatest achievement the clarification of the characteristics and the recognition of the indispensability of marketing functions by finding the functions peculiar to distribution, i.e., transfer of goods from producers to consumers. Further it gives evaluation of each of the functions and appropriate classifications based on the marketing functions analyses. The distinction of the fundamental functions from the auxiliary or secondary, made by scholars in this country, establishes the status of distribution or commerce in the economy, gives a direction for further studies, and thus contributes greatly to systematic studies, all of which are undeniable. Provided that a function determines a structure, the differentiation of the marketing functions should bring about a change in the marketing agencies or marketing structure. It has never been successfully attempted, however, to clarify the relationship between the marketing functions and the marketing agencies or structure in this context. Furthermore, due to the fact that the marketing *functions* have been understood to be the same as the marketing *activities*, the tendency has been such that the process of transfer of goods is observed technically and not in the economic context of flow of value.

The purpose of production is acquisition, transformation and modification of the quality of goods based on man's relation with nature, while that of distribution is transfer of goods from man to man without modification of either form or quality of goods based on inter-personal relationships. Therefore, in the marketing functions, the human and social relations are to be stressed. For this reason, some scholars have made attempts toward systematization on the emphasis of the Contactual Functions of the marketing functions, refraining from adopting general classifications.<sup>15)</sup>

It is naturally important, in the observation of the marketing functions, first to discover and clearly define the characteristic functions in the distribution processes. It is difficult, however, for us to agree to evaluation of each of the functions isolated from each other in their analyses, since we believe that the integration of each of the functions alone can accomplish the aim of distribution or transfer of goods from man to man. Any single function can not be missed because one is as important as another. That a certain function is excluded from a marketing agency, or that there are differences in the structure of each of the functions in the marketing activities of a certain agency, does not necessarily mean the exclusion of a specific function from the entire distribution process, but might well mean that it is shifted from one agency to some other. For, when the personal transfer of goods is performed through cooperation of a number of the marketing agencies, the allocated marketing functions to each marketing agency would necessarily be

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(15) Cox and Alderson: *op. cit.*, p. 269.  
Breyer: *op. cit.*, pp. 6-7.

different. The confusion arises, as often pointed out, out of the ambiguous distinction between marketing functions and agencies. There are various specialized marketing agencies aside from traditional merchants. Even producer or consumer groups (as consumer cooperatives) can be marketing agencies, insofar as they conduct distribution activities. There are cases in which the marketing functions themselves can move out of proper distribution processes into production processes or consumption life.

We define the marketing functions as attached to the distribution activities or economic activities that transfer goods from producers to consumers. Therefore, we think that they are performed as business activities to accomplish the aim of distribution, integrated through business administration. Further, we can think of what we call *circulation* functions attached to the spontaneous circulation of goods in society as a result of the social integration of a number of distribution activities by many business enterprises. The circulation functions correspond to the marketing functions. The former is a spontaneous and unconscious phenomenon as a result of the latter's social integration, while the latter is intentioned activities of business enterprises. And needless to say, the social circulation phenomena are based on the integrated synthesis of the circulation functions. From the above point of view, we will try to seek the law that lies behind the development and under the surface of the distribution system or commercial system through its processes of specialization and integration, on the basis of our observations and analyses of the marketing functions and the circulation functions.<sup>16)</sup>

### ***The Law of Functions and Commercial Structure***

An explanation of commerce and theory on commerce as we define in this essay must be given at the beginning.

Commerce means an economic phenomenon of personal transfer, or transfer in terms of individual economy, of goods from producers to consumers or to users. Economic phenomena are generally divided into economic *activities* based on will of individual economic subjects and social economic *phenomena* which arise unintentionally and spontaneously as a result of social synthesis of many economic activities. Accordingly, the phenomena of commercial economy are divided into distribution activities based upon will of the individual subjects of economy, and social circulation phenomena which arise as a result of social synthesis of many distribution activities.

Though we will refrain from detailed discussion on the scientific nature of the theory of commerce, we consider it as a branch of economics in a broad sense. The object of studies of commerce lies in the commercial phenomena and the science of commerce in the broad sense is divided into commercial *economics* and commercial *management*. The object of studies of commercial management lie in the distribution activities of the individual subjects of the economy and those of commercial economics in the circulation phenomena as

(16) Yoshihiko Taniguchi: *Shōgyō Soshiki no Tokushū Kenkyū (Studier on Commercial Organization)*, pp. 1-9.



a result of the social synthesis of a number of distribution activities. It was the late Dr. Yoshihiko Taniguchi who clearly distinguished commercial economics from the commercial management in this country. According to him, "commercial *economics* is a pure science to observe, analyze and describe the commercial phenomena where commodities circulate from producers to consumers in a society and to discover and explain generalities and laws behind them," whereas "commercial *management* is a pure science to observe, analyze and describe the commercial activities whose essential activities are buying and selling goods and to discover and explain generalities or the laws ruling the activities."<sup>17)</sup>

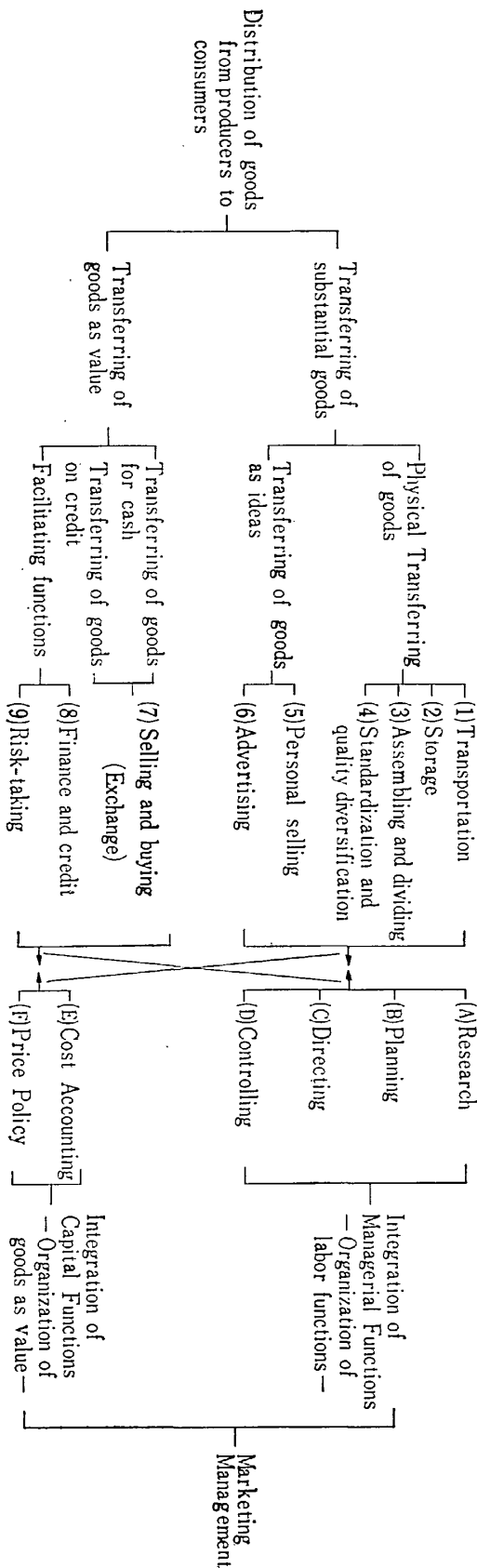
It is the commercial functions that provide the basis for the science of commerce as a part of economics. The laws, therefore, governing the commercial functions will eventually be the basis for a systematic science of commerce. A function means specific roles shared by the whole or individual factors in an entire structure consisting of various factors depending upon each other. Accordingly, the commercial functions mean the role of commerce in an economy as a whole. The concept of commerce consists of the distribution activities as intended activities of the individual subjects of the economy and of the unintentioned or spontaneous circulation phenomena stemming from the social synthesis of many of the above activities. The former that supports the distribution activities is the distribution functions and can be named the *management* functions of commerce. The latter that supports the circulation phenomena is the circulation functions and can be named the *socio-economic* functions of commerce. The growth and development of the marketing functions, the managerial functions of commerce, change the marketing agencies, their performers, in the process of specialization and integration of the marketing functions. Such a transfiguration caused by the specialization and integration of the marketing functions necessarily changes the social distribution system as a phenomenon of the circulation functions, i.e., the *commercial structure*. Thus, we will try to observe, analyze and describe the phenomena of commerce from the two standpoints of distribution functions and circulation functions, that is, as the distribution activities on the one hand and as the distribution system on the other.

Since space does not allow the explanation of each commercial function, it is my intention to tabulate a system of commercial functions as I see them and to describe the foundation and the relationship between the distribution agencies or organs and distribution system. Needless to say, the above mentioned system of the commercial functions is based on the theoretical achievements by both domestic and foreign authorities. However, we believe, it is helpful to make some corrections and amendments to their expressions and classifications.

The first six of distribution functions tabulated in the exhibit are called the labor functions of commerce and the remaining three are the capital func-

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(17) *Ibid.*, pp. 48-49.



tions or exchange functions. The distribution functions are performed as managerial activities which are classified into intentioned activities of the subjects of management and into the activities of enterprises. The subject of management is a purpose-achieving technical and rational organization based on division of labor. In a society of division of labor, all the economic activities are carried out as business administration. An enterprise is a calculation unit of capital, that is, the expression of value of the management, and a unit to increase value of the management. Since the processes of *labor* and of *value* are the two aspects of an economy, it is necessary to study the distribution functions from the angle of these two economic processes. The functions numbered from (1) to (6) are all understood as the functions of labor. Therefore, they can be called the managerial functions which transfer goods substantially. ("substantially" includes goods as an idea and as a material). From (A) to (F) are general managerial functions which, as far as the distribution management is concerned, are, also, the distribution functions (7) to (9) comprehended in terms of capital calculation (as money value) of the distribution activities conducted as labor functions, by which the transfer of goods as value is performed.

The classification system for the general distribution functions generally adopted by many scholars in America is either; 1. Function of exchange of transfer of ownership, 2. Function of substantial transfer, 3. Function of assistance or management; or a number of simple methods of numeration,

providing little rating of the importance of each of the marketing functions. In this country, as stated earlier, they are classified into the essential functions and subsidiary or secondary functions. Great significance cannot be found in evaluation of each distribution function for the sake of the distribution aim. For, the aim of distribution lies in the personal transfer of goods from producers to consumers, for which the distribution functions serve. The personal transfer of goods can only be possible through the consummative integration of all the distribution functions. The ultimate objective of distribution, the personal transfer of goods, can never be accomplished by each individual marketing function or by a group of several functions.

***Why are the marketing functions specialized and how are they integrated?***

The first stage in the birth and development of distribution was when producers and consumers were first separated. At such a stage, the volume of goods to be distributed was extremely small, presumably identical with a consumption unit itself at first. Even at the initial stage of the emergence of Middlemen as specialized marketing agencies between producers and consumers, their distribution unit must have been extremely small. Their distribution activities were, therefore, carried out as if they were simple distribution activities with no realization to the specialization of distribution functions.<sup>18)</sup> This is the reason why scholars of those days defined commerce simply as an exchange function. Even in those past days, however, the distribution functions necessary for the personal transfer of goods were integrated and organized unconsciously in that simple distribution activity. In other words, the functions of contact of ideas of goods, and coordination of time, of quantity and of quality, formation of price, settlement of accounts, and risk taking and other functions must have been included in the act that was regarded as a simple transaction. However, through the increasing degree of social separation between production and consumption brought up by extension of the distribution channels, expansion of market and of production scale, the volume of goods brought into the circulation channels has increased with an inevitable result of quantitative and qualitative division of distribution activities. Thus, gradually, the recognition of the individual distribution function was made possible.

Since the distribution functions achieve the distribution aim of the personal transfer of goods through comprehensive synthesis of each distribution function, the specialized distribution functions must be re-integrated. There are two ways of integration. The one is managerial integration and the other social integration.

Managerial integration is carried out through the subjective will of enterprise management, which means that the business managers centralize various kinds of distribution functions synthetically, and organize or integrate based

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(18) K. Oberparleiter: *Funktionen und Risiken des Warenhandels*, 1955, S. 6.

on capital calculation. The specialization of distribution functions is never carried out equally at each stage of distribution. The degree and pattern of the specialization of the functions are different from one good to another and from one distribution stage to another. The distribution processes of transfer of goods from producers to consumers are a chain of distribution managements which are technical units of the distribution activities. At the same time, it is also a chain of distribution enterprises (units of distribution capital) which transfer goods as value through distribution managements (selling and buying). In one case, a single distribution management can be a single enterprise, and in another case, a single distribution enterprise can consist of a number of distribution managements. However, a single distribution management is never consisted of many distribution enterprises. There is a case in which a management is organized by several kinds of distribution functions or a group of the distribution functions of the same kind. The proper distribution organ is a distribution management as well as a distribution enterprise, and the distribution management, in some cases, constitutes a production enterprise.

The personal transfer of goods in a strict sense is carried out necessarily through a combination of the management distribution functions (physical transfer) and the enterprise distribution functions (sales and purchases). In this context, a distribution organ aiming at the personal transfer of goods must play the roles of the distribution management and distribution enterprise at the same time. We call such an enterprise management aiming at such a distribution a commercial business. Since the commercial business is a distribution organ directly linking producers with consumers, we can call it a direct distribution organ. The development of the commercial structure has its origin in the extension of chains of commercial business as a direct distribution organ. The commercial (or marketing) business is a distribution enterprise and a distribution management as well. It is usually organized by several kinds of distribution functions. When a certain kind of distribution function quantitatively increases, or a specialized development of distribution technique reaches such an extent that the commercial business cannot bear its burden, the distribution function concerned becomes, on the rationalization principle, separated from the commercial business, a direct distribution function, establishing a specialized functional management of the same kind of functions. Such a specialized functional management separates itself from the direct distribution organ to be independent. Within the limit of its own specialized function, then, it is delegated to act for the direct distribution function. Therefore, we can call it a collateral distribution organ.

The relationship between the direct and the collateral distribution organs means that the latter is functionally delegated by the former which is nothing but a result of the specialization of distribution functions. It is commercial business as a direct distribution organ that, in its planning (management) and by capital calculation (enterprise), determines how to utilize the collateral distribution organ. In other words, the commercial business is the subject of integration of the various functions in the distribution process.

Through social integration of the circulation functions corresponding to the marketing functions integrated in terms of management and enterprise, all the goods in a society are linked with each other in terms of production and consumption. It realizes itself through the marketing agencies as the performers of the marketing functions, and further, through a social distribution system as the over-all distribution system. As the marketing functions cannot accomplish their ultimate objectives individually without their integration, so the marketing agencies cannot accomplish their objectives of social circulation individually without the distribution system as their social synthesis. Thus, only with the system, can the link between production and consumption, the objective of the social circulation, be materialized.

### ***The Specialization or Shift of the Distribution Functions and Transfiguration of the Commercial Structure***

The distribution functions need the distribution organs as their performers, and the growth and development of the distribution organs are based upon division of labor and controlled by the law of specialization and integration of the distribution functions. A distribution organ is a management body of a technical and rational organization of labor. At the same time, it is an *enterprise* body of a calculation unit of capital with the purpose of value increase. The managerial activities in an organ of division of labor is comprehended as a movement of capital in an enterprise in terms of monetary calculation. A price is an output value which is the sum of an input value and an addition in the management processes. A capitalistic enterprise draws its management planning aiming at profit maximization, and controls and manages its activities accordingly. It is concretely comprehended in terms of monetary value, through the capital calculation system in an enterprise.

The distribution organ, first, has grown and developed as the commercial business of the direct distribution organ as a consequence of social division of producers and consumers. The commercial business is a distribution management of a technical and rational organizational unit, as well as a distribution enterprise which is a calculation unit of capital integrated through ownership. Therefore, the distribution functions are always organized in *commercial business* in accordance with the law of technical rationality, but in the capitalistic enterprise, the distribution management activities are always conditioned by the enterprise's aim of pursuit of maximum long term profit. Here arises, the question of the relationship between the size of individual commercial capital (value of commercial business) and the scale and form of the commercial business. In such a case where both the accumulation of capital in the circulation process and size of the individual commercial capital are small, both physical scale and rationality of the managerial form are immature. This is the reason why, in the circulation field generally containing many small or medium-size merchants, rationalization is belated either managerially or socially generating the question of low distribution efficiency.

While in the production processes linked with the upper end of the circulation processes, the development of rationalization brings about both standardization and specialization of technical processes and is directed toward expansion of the scale of enterprises for the maximization of total profit of the enterprises through reduction of unit profit or unit cost of their products, the consumption unit, on the other hand, linked with the farthest end of the circulation processes is bound to be small as the individual or family unit. This has a relevance to the small scale and numerical excess of small businesses dealing with the final consumers. (Large scale retailers will be discussed later.) This increases the number of social distribution links between production and consumption and the opportunities for commercial profit gain in the circulation processes. Here is the difficulty toward the rationalization of commercial business and elevation of efficiency of social distribution.

Today, some scholars assert that the number of commercial managements and enterprises must be decreased and that the scale of a management or enterprise must be expanded in order to rationalize the commercial structure and elevate distribution efficiency. It will indeed assure economic rationalization, but in the circulation processes is, as mentioned above, the destined limitation. Thus, the rationalization of the circulation processes is sought in the institutional development of the distribution organs, following the specialization of the distribution functions. It is the technical development through both the innovation of the management form of the direct distribution organ and the specialization of the functions of the collateral distribution organ.

The direct distribution organ called commercial management is not the same as merchant management. Merchant management represents a part of commercial management but not all of it. There is a commercial management directly managed by producers, the cooperative commercial management (producers', merchants', consumers'), and the public-operated commercial management. The merchant management was the first to have emerged as a specialized distribution agency and to have existed as a representative direct distribution organ up to date. It is natural and universal that the commercial management should be roughly divided into the retailers selling to the final consumers and the wholesalers lying between producers and retailers or among producers. Despite that there is much dispute and exception as to the standard of division between retailers and wholesalers, it seems to be most essential to distinguish them according to the size of individual sales unit. The retailers sell on the basis of a retail unit volume (consumption unit volume) and the wholesalers on the basis of a wholesale unit volume (comparatively larger than the retail unit). The final consumers are widely spread around individual units or family units. Thus, the kinds of commodities the retailers deal with are varied and their management scale is small.

The rationalization of retail management, therefore, is achieved by simplification and centralization by means of the shift of a part of the distribution functions to the others. In this manner, the expansion of the scale of manage-

ment and enterprises can be achieved and centralized operation might be established. (cooperative-operated department stores and supermarkets) The simplification and centralization can be achieved respectively by the transfer of some of the distribution functions and by the accumulation of many retailing sales of small unit. This will be realized through the progress in production and distribution technique, the development of the social and economic distribution system, the development of rationalization of consumption life, and the increasing number of various commodities.

Department stores of rationalized large scale retail management with a large amount of shopping goods have been developed by the concentration of population in cities, the development of transportation, the elevation of cultural life, and advanced advertising techniques. The development of advertising media and advertising agencies has made it possible to appeal to the public (delegation of the communication function). The development of urban transportation attracts numerous customers from distant places to a large quantity of accumulated retail merchandise with expensive goods being stressed most strongly. Thus, we can say that the department store has established itself as a rationalized large scale retail commercial business through accumulation of the retail distribution functions.

The mail-order sales operation is one of the large scale retailing managements, supported by the development of communication technology, of transportation and of production of shopping goods. It has established itself mainly through the delegated advertising and transportation functions.

Chain stores consist of many formally isolated small-sized stores dealing with convenience goods and is established as a single large scale enterprise. We can say that it plays its role as a mass sales organ of standardized brand commodities, as a result of voluminous production. It seems that it has established itself as a mass sales organ, supported by standardized life of the consumers in big cities, by transferring the standardization function to the production processes through the development of production techniques and by standardized management through volume purchase of the standardized convenience goods.

Supermarkets, which have made remarkable progress recently, are centralized large-scale retailing businesses of foodstuffs, based on the delegation of a distribution (transportation) function and storage function to the consumers.<sup>19)</sup> Its pre-requisite is, also, the mass production of standardized convenience goods, which underlines the significance of the transfer of the standardization function as a distribution function to the production processes. The transfer of the distribution function and storage function to the consumers has been brought about by the changing consumption patterns in American families such as the popularization of passenger cars and electric refrigerators, and freezers.

Lastly, wholesale management is a commercial management based on the wholesale unit. The wholesale unit volume is, in principle, larger than the

(19) Yasura Suzuki: *Shōgyō Keizai Shinron (Modern Theory on Distribution Economics)*.

retail unit. In the retailing business, because the retail unit is a small final consumption unit, there is no room for the specialization of the distribution functions in an individual retailing unit. The expansion of a retailing management unit alone opens a way toward the rationalization of management through the specialization and the delegation of the distribution functions. On the other hand, the wholesale unit volume is large enough for the specialization of the distribution functions in an individual transaction unit. The functions of transportation, storage, and finance are accumulated, specialized and delegated to the specialized functional organs of transportation, warehousing, and financing. In this way, the expanded and rationalized wholesale management is increasingly specialized, maintaining the specialized functions in its own hands. In a small sized wholesale commercial business, however, the management activities can be comparatively simplified through the delegation of important functions in each individual transaction unit, as a result of which some neglects the rationalization in an easy-going manner.

In the preceding discussions, we analyzed the marketing functions by investigating the law of their specialization and integration to define the marketing agencies or organs, in an attempt to understand the structure of the commercial (or marketing) system. Some points we could not discuss satisfactorily in detail due to the space limitations will be refined at a later date.