

Cambridge University Press

0521840538 - The Profit Impact of Marketing Strategy Project: Retrospect and Prospects

Edited by Paul W. Farris and Michael J. Moore

Frontmatter

[More information](#)

*The Profit Impact of Marketing
Strategy Project: Retrospect
and Prospects*

New developments in strategic thinking and econometric methods, alongside fundamental changes in technology and in the nature of competition, argue the need for an in-depth but accessible assessment of the Profit Impact of Marketing Strategy project. Here, Paul Farris and Michael Moore gather together contributions from experts across the United States and Europe to offer a retrospective analysis alongside innovative perspectives on future marketing strategy and performance assessment methods. Appealing to scholars and reflective practitioners interested in fostering new practical knowledge about business innovation and changes, this book explores not only new ways of thinking about and working with PIMS but also the unresolved issues arising from the original data. As the business community renews its attempts to recreate the kind of interfirm cooperation that produced the PIMS project, sharing many of the ideals, this timely volume will broadly appeal.

PAUL W. FARRIS is the Landmark Communications Professor of Business at the University of Virginia's Darden Graduate School of Business Administration.

MICHAEL J. MOORE is the Bank of America Research Professor at the Darden Graduate School of Business Administration and Professor of Health Evaluation Sciences at the School of Medicine, University of Virginia. He is also Managing Director at Huron Consulting Group and National Practice Director of the Economic Litigation and Consulting Practice.

Cambridge University Press

0521840538 - The Profit Impact of Marketing Strategy Project: Retrospect and Prospects

Edited by Paul W. Farris and Michael J. Moore

Frontmatter

[More information](#)

The Profit Impact of Marketing Strategy Project: Retrospect and Prospects

EDITED BY

PAUL W. FARRIS AND
MICHAEL J. MOORE



CAMBRIDGE
UNIVERSITY PRESS

Cambridge University Press

0521840538 - The Profit Impact of Marketing Strategy Project: Retrospect and Prospects

Edited by Paul W. Farris and Michael J. Moore

Frontmatter

[More information](#)

PUBLISHED BY THE PRESS SYNDICATE OF THE UNIVERSITY OF CAMBRIDGE
The Pitt Building, Trumpington Street, Cambridge, United Kingdom

CAMBRIDGE UNIVERSITY PRESS

The Edinburgh Building, Cambridge, CB2 2RU, UK
40 West 20th Street, New York, NY 10011-4211, USA
477 Williamstown Road, Port Melbourne, VIC 3207, Australia
Ruiz de Alarcón 13, 28014 Madrid, Spain
Dock House, The Waterfront, Cape Town 8001, South Africa

<http://www.cambridge.org>

© Cambridge University Press 2004

This book is in copyright. Subject to statutory exception and to the provisions of relevant collective licensing agreements, no reproduction of any part may take place without the written permission of Cambridge University Press.

First published 2004

Printed in the United Kingdom at the University Press, Cambridge

Typeface Sabon 10/13 pt. *System* L^AT_EX 2_ε [TB]

A catalogue record for this book is available from the British Library

Library of Congress cataloguing in publication data

Profit impact of marketing strategy: retrospect and prospects / edited by Paul W. Farris and Michael J. Moore.

p. cm.

Contains essays collected and published in honor of Robert D. Buzzell. The impetus for these papers and essays originates from a conference held in October 2002.

Includes bibliographical references and index.

ISBN 0 521 84053 8

1. Marketing – Management. 2. Strategic planning. I. Farris, Paul. II. Moore,

Michael J., 1953– III. Buzzell, Robert D. (Robert Dow), 1933–

HF5415.13.P76 2004

658.8'02 – dc22 2004045742

ISBN 0 521 84053 8 hardback

The publisher has used its best endeavours to ensure that the URLs for external websites referred to in this book are correct and active at the time of going to press. However, the publisher has no responsibility for the websites and can make no guarantee that a site will remain live or that the content is or will remain appropriate.

Cambridge University Press

0521840538 - The Profit Impact of Marketing Strategy Project: Retrospect and Prospects

Edited by Paul W. Farris and Michael J. Moore

Frontmatter

[More information](#)

Contents

<i>List of figures</i>	page vii
<i>List of tables</i>	viii
<i>Notes on contributors</i>	xii
<i>Acknowledgments</i>	xvii
Introduction	1
<i>Paul W. Farris and Michael J. Moore</i>	
1 The PIMS project: vision, achievements, and scope of the data	6
<i>Paul W. Farris with John U. Farley</i>	
2 Putting PIMS into perspective: enduring contributions to strategic questions	28
<i>George S. Day</i>	
3 PIMS and COMPUSTAT data: different horses for the same course?	41
<i>D. Eric Boyd, Paul W. Farris, and Lutz Hildebrandt</i>	
4 Order of market entry: empirical results from the PIMS data and future research topics	73
<i>William T. Robinson and Mark Parry</i>	
5 Does innovativeness enhance new product success? Insights from a meta-analysis of the evidence	92
<i>David M. Szymanski, Michael Kroff, and Lisa C. Troy</i>	
6 Marketing costs and prices: an expanded view	124
<i>David J. Reibstein, Yogesh Joshi, and Paul W. Farris</i>	

Cambridge University Press

0521840538 - The Profit Impact of Marketing Strategy Project: Retrospect and Prospects

Edited by Paul W. Farris and Michael J. Moore

Frontmatter

[More information](#)

vi	<i>Contents</i>
7	The model by Phillips, Chang, and Buzzell revisited – the effects of unobservable variables <i>Lutz Hildebrandt and Dirk Temme</i> 153
8	Causation and components in market share–performance models: the role of identities <i>Kusum L. Ailawadi and Paul W. Farris</i> 188
9	Cargo cult econometrics: specification testing in simultaneous equation marketing models <i>Michael J. Moore, Ruskin Morgan, and Judith Roberts</i> 218
10	PIMS and the market share effect: biased evidence versus fuzzy evidence <i>Markus Christen and Hubert Gatignon</i> 260
11	PIMS in the new millennium: how PIMS might be different tomorrow <i>Paul W. Farris and Michael J. Moore with Keith Roberts</i> 272
	<i>Select bibliography</i> 287
	<i>Author index</i> 298
	<i>Subject index</i> 303

Cambridge University Press

0521840538 - The Profit Impact of Marketing Strategy Project: Retrospect and Prospects

Edited by Paul W. Farris and Michael J. Moore

Frontmatter

[More information](#)*Figures*

1.1 The share–ROI debate	<i>page</i> 20
1.2 A view of the accounting components of ROI	21
2.1 The evolution of strategy from a marketing perspective	29
2.2 A framework for value creation: recasting the PIMS variables	33
5.1 Distribution of innovativeness–performance correlations	101
6.1 Relative prices vs. relative advertising for eight industry categories	136
6.2 Relative prices vs. relative salesforce spending for eight industry categories	137
6.3 Relative prices vs. relative salesforce and advertising, controlling for market share (all eight industry categories)	139
6.4 Relative prices vs. relative salesforce and advertising, controlling for quality (all eight industry categories)	140
10.1 Estimator selection for market share effect on ROI with PIMS data for different industries	267
11.1 Traditional measures of Wal-Mart’s profitability, 1982–1992	279
11.2 EVA for Wal-Mart, 1982–1992	279

Cambridge University Press

0521840538 - The Profit Impact of Marketing Strategy Project: Retrospect and Prospects

Edited by Paul W. Farris and Michael J. Moore

Frontmatter

[More information](#)*Tables*

1.1a	A summary of data collected by PIMS: I	<i>page</i> 8
1.1b	A summary of data collected by PIMS: II	9
1.1c	A summary of data collected by PIMS: III	10
1.2	A partial list of journals in which PIMS-based articles have appeared	18
1.3	Market share and ROI	19
1.4	Low-, average-, and high-share businesses: a comparison of ROI and accounting-components means	22
3.1	Selected COMPUSTAT-based research in marketing journals	44
3.2	Comparison of COMPUSTAT and PIMS variable compositions	47
3.3	Distribution of selected types of businesses in COMPUSTAT data, 1980 and 2000	49
3.4	Financial ratios for manufacturing businesses/firms, 1980	52
3.5	Financial ratios for manufacturing businesses/firms, 2000	54
3.6	Percentage of total value accounted for by COMPUSTAT firms exceeding \$250 million or \$500 million in assets: selected variables	55
3.7	Distribution of R&D/sales, depreciation/sales, and SG&A/sales ratios, 1980 and 2000, COMPUSTAT data	56
3.8	Comparison of PIMS reported market share with estimated market size	59
3.9	Percentage of COMPUSTAT firms reporting selected financial ratios	61
3.10	Percentage of COMPUSTAT firms reporting four consecutive years of variable in selected periods	61

Cambridge University Press

0521840538 - The Profit Impact of Marketing Strategy Project: Retrospect and Prospects

Edited by Paul W. Farris and Michael J. Moore

Frontmatter

[More information](#)

<i>List of tables</i>	ix
3.11 Variable definition and construction process for PIMS analysis	66
3.12 Variable definition and construction process for COMPUSTAT analysis	67
3.13 Financial ratio standard deviations for manufacturing businesses/firms, 1980	68
3.14 Financial ratio standard deviations for manufacturing businesses/firms, 2000	69
4.1 Order of entry and market share: consumer goods vs. industrial goods	76
4.2 Order of entry and market share: concentrated vs. fragmented markets	77
4.3 Order of entry and ROI	78
4.4 Citations of empirical research on order of market entry	86
5.1a Correlations among omitted variables, innovativeness, and performance	102
5.1b Correlations of methodological and contextual factors with the reported innovativeness–performance effect	104
5.2 Rationale behind selected moderators of the innovativeness–performance relationship	106
5.3 Potential moderators regressed on the innovativeness–performance correlation	112
6.1 Literature review	128
6.2 Averages of relative prices, advertising and promotion/sales, marketing/sales, and market shares for levels of relative advertising	135
6.3 Averages of relative prices, salesforce/sales, marketing/sales, and market shares for levels of relative sales force	137
6.4 Relative price vs. relative marketing spending	140
6.5 Regression results for ROI vs. consistency index	141
6.6 Selected marketing ratios from PIMS data	148
6.7 Computing the consistency index fractions	149
6.8 Key to consistency index coding	149
6.9 Coding the consistency index	149

Cambridge University Press

0521840538 - The Profit Impact of Marketing Strategy Project: Retrospect and Prospects

Edited by Paul W. Farris and Michael J. Moore

Frontmatter

[More information](#)

x	<i>List of tables</i>
7.1	Hypothesized effects of the exogenous control variables 159
7.2	Parameter estimates and fit measures for the baseline model 165
7.3	Parameter estimates and fit measures for the RE model 167
7.4	Parameter estimates and fit measures for the RECEV and FD models 168
7.5	Likelihood ratio tests on uncorrelation between product quality and individual effects 170
7.6	Parameter estimates and fit measures for the unconstrained ARDL and AR1-RECEV models 173
7.7	Likelihood ratio tests of the autocorrelation hypothesis 178
7.8	Comparison between the results of Phillips, Chang, and Buzzell (1983) and the present study 181
8.1	Model specifications with composite variables in the literature 192
8.2	Estimates of the Comanor and Wilson model 206
8.3	Estimates of the respecified Comanor and Wilson model 208
8.4	Model with composite variables: summary of appropriate analyses 210
9.1	Sample of simultaneous equation models utilizing PIMS data 228
9.2a	Variable definitions 231
9.2b	Descriptive statistics 232
9.3	Market share equations: coefficient estimates and <i>t</i> -ratios 233
9.4	Market share equations: specification tests 236
9.5a	Product quality equations: coefficient estimates and <i>t</i> -ratios 237
9.5b	Product quality equations: specification tests 238
9.6a	Product-line breadth equations: coefficient estimates and <i>t</i> -ratios 239
9.6b	Product-line breadth equations: specification tests 240
9.7a	Relative price equations: coefficient estimates and <i>t</i> -ratios 241
9.7b	Relative price equations: specification tests 242

Cambridge University Press

0521840538 - The Profit Impact of Marketing Strategy Project: Retrospect and Prospects

Edited by Paul W. Farris and Michael J. Moore

Frontmatter

[More information](#)

<i>List of tables</i>	xi
9.8a Direct cost equations: coefficient estimates and <i>t</i> -ratios	243
9.8b Direct cost equations: specification tests	244
9.9a First-stage estimates for market share equation: coefficient estimates and <i>t</i> -ratios	247
9.9b First-stage estimates for other than market share equation: coefficient estimates and <i>t</i> -ratios	248
9.10 Product quality equations – main effects included: coefficient estimates and <i>t</i> -ratios	250
9.11 Product quality equations – main effects included: specification tests	251
9.12 Product-line breadth equations – main effects included: coefficient estimates and <i>t</i> -ratios	252
9.13 Product-line breadth equations – main effects included: specification tests	253
9.14 Relative price equations – main effects included: coefficient estimates and <i>t</i> -ratios	254
9.15 Relative price equations – main effects included: specification tests	255
9.16 Direct cost equations – main effects included: coefficient estimates and <i>t</i> -ratios	256
9.17 Direct cost equations – main effects included: specification tests	257
9.18 First-stage equations – main effects models: coefficient estimates and <i>t</i> -ratios	258
10.1 The effect of market share on different performance measures using PIMS data	265
10.2 Market share effects: summary of results	268

Cambridge University Press

0521840538 - The Profit Impact of Marketing Strategy Project: Retrospect and Prospects

Edited by Paul W. Farris and Michael J. Moore

Frontmatter

[More information](#)

Contributors

KUSUM L. AILAWADI is Associate Professor of Business Administration, Tuck School, Dartmouth College. Her recent publications include “Predicting Competitive Response to a Major Policy Change: Combining Normative and Empirical Analysis,” (with Praveen Kopalle and Scott Neslin, *Marketing Science* (2004)); “An Empirical Analysis of the Determinants of Retail Margins: The Role of Store Brand Share,” (with Bari Harlam), *Journal of Marketing* (2004); and “Revenue Premium as an Outcome Measure of Brand Equity,” (with Donald Lehmann and Scott Neslin), *Journal of Marketing* (2003).

D. ERIC BOYD is Assistant Professor of Marketing at James Madison University with research interests in marketing strategy, product development, and strategic alliances. His research has been published in the *Journal of Consumer Marketing*, *Services Marketing Quarterly*, and the *Journal of Business-to-Business Marketing*.

MARKUS CHRISTEN is Assistant Professor of Marketing at INSEAD. His research interest focuses on the development of profitable marketing strategies. One area of inquiry concerns substantive and methodological questions about the cost and profit implications of market entry strategies (innovation vs. imitation). A second research stream examines managers’ acquisition of information for strategic decisions and the extent to which managers’ ability to forecast sales accurately is related to the ultimate performance of new products and product lines. His work has appeared in *Marketing Science*, the *Journal of Marketing Research*, the *Harvard Business Review*, and *The Financial Times*.

GEORGE S. DAY is the Geoffrey T. Boisi Professor, Professor of Marketing and Co-director of the Mack Center for Technology Innovation at the Wharton School of the University of Pennsylvania. He is co-author (with David J. Reibstein and Robert E. Gunther)

Cambridge University Press

0521840538 - The Profit Impact of Marketing Strategy Project: Retrospect and Prospects

Edited by Paul W. Farris and Michael J. Moore

Frontmatter

[More information](#)*Notes on contributors*

xiii

of *Wharton on Dynamic Competitive Strategy* (Wiley, 1997), and author of *Market Driven Strategy* (Free Press, 1990).

JOHN U. FARLEY is C. V. Starr Distinguished Research Fellow in International Business at the Tuck School, Dartmouth College. His current research interests are in organizational culture and performance in six countries, in particular in why some firms earn more than others. Recent publications include “Corporate Culture, Customer Orientation and Innovativeness in Japanese Firms: A Quadrad Analysis,” *Journal of Marketing* (1993); *Global Performance* (Oxford University Press, 1999); “Empirical Marketing Generalization Using Meta-Analysis,” (with D. R. Lehmann) *Marketing Science* (1999); “Triad Lessons: Generalizing Results on High Performance Firms in Five Business-to-Business Markets,” (with R. Deshpandi and F. E. Webster) *International Journal of Research in Marketing*.

PAUL W. FARRIS is the Landmark Communications Professor of Business at the University of Virginia’s Darden Graduate School of Business Administration. Professor Farris’ general research focus is in the area of marketing productivity and budgeting. His recent publications include “The Elasticity of Customer Value to Retention: The Duration of a Customer Relationship,” (with Philip E. Pfeifer), *Journal of Interactive Marketing* (2004), and “Getting the Biggest Bang for Your Marketing Buck,” in *Measuring and Allocating Marcom Budgets: Seven Expert Points of View*, (Marketing Science Institute, 2003).

HUBERT GATIGNON is Claude Janssen Chaired Professor of Business Administration, INSEAD, Dean of the PhD Program, Research Director of the INSEAD–Wharton Alliance and Director of the Alliance Center for Global Research and Development. His research areas include modeling the factors influencing the adoption and diffusion of innovations and measuring how the effects of marketing mix variables change over conditions and over time. His current research deals with innovation strategies, as well as international marketing strategy. He recently published *Statistical Analysis of Management Data* (Kluwer, 2003), and co-edited *The Alliance on Globalizing: Strategies for Building Successful Global Businesses* (Cambridge University Press, 2004).

Cambridge University Press

0521840538 - The Profit Impact of Marketing Strategy Project: Retrospect and Prospects

Edited by Paul W. Farris and Michael J. Moore

Frontmatter

[More information](#)

LUTZ HILDEBRANDT is Professor of Marketing and Director of the Institute of Marketing at the Humboldt University of Berlin. He is the current president of the European Marketing Academy (EMAC) and a member of the editorial board of several journals. He edits the German journal *Marketing*. His research interests are in strategic success factors, structural equation modeling, and marketing mix modeling. He is the co-author of “Unobservable Effects in Structural Models of Business Performance” (with D. Annacker), in *Journal of Business Research* (2004) and “The Analysis of Price Competition between Corporate Brands” (with D. Klapper) in *International Journal of Research in Marketing*. He has edited the book *Die Kausalanalyse* (Schäffer-Poeschel, 1998).

YOGESH JOSHI is a PhD candidate at the Wharton School of the University of Pennsylvania. His research interests include competitive strategy, industrial organization, advertising, and product variety.

MICHAEL KROFF is a doctoral student, Department of Marketing, Texas A&M University.

MICHAEL J. MOORE is Managing Director at Huron Consulting Group and National Practice Director of the Economic Litigation and Consulting Practice. He is also the Bank of America Research Professor at the University of Virginia’s Darden Graduate School of Business Administration and Professor of Health Evaluation Sciences at the School of Medicine, University of Virginia. Additionally, he is a Research Associate in the Health Economics and Healthcare sections at the National Bureau of Economic Research, and Donald Bren Scholar at the Bren School of Environmental Sciences and Management, University of California, Santa Barbara.

RUSKIN MORGAN is a Director in the Economic Litigation and Consulting Practice at the Huron Consulting Group. He is also an Assistant Professor of Marketing, David Eccles School of Business, University of Utah. His recent publications include “Knowing When to Say When: Improving the Stop/No Stop New Product Decision,” (with W. Boulding and R. Staelin), *Journal of Marketing Research* (1997), and “Only the Illusion of Attempted Collusion? Cheap Talk and Similar Preferences: Some Experimental Evidence,” (with M. C. Moore and M. J. Moore), *Journal of Public Policy and Marketing* (2001).

Cambridge University Press

0521840538 - The Profit Impact of Marketing Strategy Project: Retrospect and Prospects

Edited by Paul W. Farris and Michael J. Moore

Frontmatter

[More information](#)

Notes on contributors

xv

MARK PARRY is Robert F. Vandell Research Professor of Business Administration at the Darden Graduate Business School, University of Virginia. His research and case writing focus on marketing strategy, brand equity, and new product development. His articles have appeared in *Marketing Science*, *Management Science*, *the Journal of Marketing*, *the Journal of Marketing Research*, *Marketing Letters*, and the *Journal of Product Innovation Management*.

DAVID J. REIBSTEIN is William Stewart Woodside Professor, and Professor of Marketing at the Wharton School, University of Pennsylvania. His research interests relate to competitive marketing strategies, electronic commerce resource allocation, promotion evaluation, market segmentation, product variety, brand equity, and Internet valuations.

JUDITH ROBERTS is a director in Huron Consulting Group's Boston office. She is an applied microeconomist with more than fifteen years of combined academic and nonacademic experience, and has conducted numerous large-scale econometric studies on a variety of subjects.

KEITH ROBERTS is Managing Director of PIMS Europe. He first joined the company in its US office in 1979 and was responsible for the development of many of the benchmarking models used by PIMS consultants. In 1981 he moved to London to set up PIMS Europe. His consulting experience has encompassed a wide range of industries: publishing, engineering, chemicals, paper, oil, pharmaceuticals, metals, minerals, packaging, consumer goods, and financial services. As well as coordinating the new product activities of PIMS, he currently works with leading international FMCG and oil companies. Keith had experience as a PIMS client while working in two major companies. From 1976 to 1979 he was a strategic planner, evaluating the corporate portfolio, at Reed (now Reed Elsevier), where PIMS played a major part in the transformation of Reed from a paper/packaging-based conglomerate to a successful publishing company. Prior to that he was one of the first UK participants in the PIMS program, in the marketing department of Tioxide (now part of ICI). From 1970 to 1973 he was in OR consultancy for local government. Keith has a degree in mathematics and an advanced degree in statistics from Cambridge University.

Cambridge University Press

0521840538 - The Profit Impact of Marketing Strategy Project: Retrospect and Prospects

Edited by Paul W. Farris and Michael J. Moore

Frontmatter

[More information](#)

WILLIAM T. ROBINSON is Associate Professor of Management at the Krannert Graduate School of Management, Purdue University. His main research area is marketing strategy, with an emphasis on order of market entry. His research has been published in the *Journal of Marketing Research*, *Management Science*, *Marketing Science*, *The Strategic Management Journal*, the *Journal of Consumer Research*, and the *Journal of Industrial Economics*. His articles include “Is the First to Market the First to Fail?: Empirical Evidence for Industrial Goods Businesses,” (with Sungwook Min), *Journal of Marketing Research* (2002), and “Product Development Strategies for Established Market Pioneers, Early Followers, and Late Entrants,” (with Jeongwen Chiang), *Strategic Management Journal* (2002).

DAVID M. SZYMANSKI is J. C. Penney Chair of Retailing Studies, Research Fellow, Director of the Center for Retailing Studies and the Al and Marion Withers Research Fellow in the Mays College & Graduate School of Business. He was Associate Director of the Center for Retailing Studies for three years prior to being named Director on July 1, 2000. He has published widely in the leading marketing journals, including the *Journal of the Academy of Marketing Science*, the *Journal of Marketing*, the *Journal of Marketing Research*, the *Journal of Personal Selling and Sales Management*, and the *Journal of Retailing*. He received the Mu Kappa Tau award in 1992 for the outstanding article published in the *Journal of Personal Selling and Sales Management*.

DIRK TEMME is Assistant Professor of Marketing at the Humboldt University of Berlin. His current research interests include mean- and covariance structure models for panel-type data and finite mixture distributions. He has written several articles on controlling unobservable effects in models of business success (e.g. “Unobservable Effects in Structural Models of Business Performance,” (with Lutz Hildebrandt), *Journal of Business Research* (2004).

LISA C. TROY is Assistant Professor of Marketing, University of North Texas. With David Szymanski and Sundar G. Bharadwaj, she has also published “The Order of Entry – Market Share Relationship: An Empirical Synthesis and Reexamination,” *Journal of Marketing* (1995).

Cambridge University Press

0521840538 - The Profit Impact of Marketing Strategy Project: Retrospect and Prospects

Edited by Paul W. Farris and Michael J. Moore

Frontmatter

[More information](#)

Acknowledgments

We would like to acknowledge certain key individuals, without whom this project to honor Bob Buzzell's work could not have been completed. Professor Robert Bruner and Elizabeth O'Halloran of the Batten Institute at the Darden School of Business were uncommonly generous in providing financial and logistical support for the project. The early and enthusiastic commitment of Professors George Day and David Reibstein of Wharton, and the endorsement of Professor Don Lehman of the Marketing Science Institute gave the undertaking critical mass. Professor Stephen Greyser of Harvard also generated early momentum for us. Lutz Hildebrandt not only traveled from Berlin, but suggested the conference to celebrate Bob Buzzell's PIMS contributions many years ago. Dr. Katy Plowright of Cambridge University Press encouraged us to undertake this book. Jackie Warren, Production Editor, kept us moving in the right direction and Chris Doubleday's careful reading of the manuscripts improved them all. Of course, we take responsibility for whatever errors might remain. Finally, we would like to thank each conference participant for their efforts, not only in preparing the manuscripts contained in this volume, but also for making the trip to Charlottesville.