

# Demarketing, yes, demarketing

*Rather than blindly engineering increases in sales, the marketer's task is to shape demand to conform with long-run objectives*

## Foreword

The way marketers try to cope with excess demand or unwanted demand may affect the company's long-run objectives just as much as do marketing policies for normal times. What kinds of situations lead companies to cut back on their marketing efforts? How do methods of de-emphasis differ depending on the type of problem? This instructive and sometimes amusing analysis answers these and other questions that have never before been raised in HBR. It also suggests new directions for the study of marketing.

Mr. Kotler is the A. Montgomery Ward Professor of Marketing in the Graduate School of Management, Northwestern University. He has written books on marketing management as well as several HBR articles. Mr. Levy is Professor of Behavioral Science in Management at Northwestern. As Vice President of Social Research, Inc., he has directed research investigations on behalf of numerous organizations. He is well known for his publications on consumer behavior. (The cartoons are by Mark E. Kelley.)

**T**he popular conception of marketing is that it deals with the problem of furthering or expanding demand. Whether one takes the traditional view that marketing is finding customers for existing products, or the more recent view that it is developing new products for unmet consumer wants, it is seen as the technology of bringing about increases in company sales and profits. The marketer is a professional builder of sales volume who makes deft use of product, price, place, and promotion variables.

This is a narrow concept of marketing and the potential applications of marketing technology. It is a concept that arose in a period of goods oversupply. It also reflects a widespread tendency to define marketing in terms of what marketers ought to do rather than to analyze what they actually do under various circumstances. Much

marketing literature approaches marketing with exhortations: define your objectives, know your market, meet consumer needs, and so on—all underlaid with the implied promise that then you will sell more. As a result, marketing has been too closely identified with the problem of buyer markets.

But suppose that an economy were suddenly plunged into a state of widespread product shortages. What would be the role of marketing management then? Would it evolve into a minor business function? Would it disappear altogether? Or would it continue to perform critical functions for the company?

Most production, financial, and marketing men who are asked this question opine that marketing's role would be greatly reduced in a scarcity economy. They see marketing as a "fair



weather" profession, one that seems to be important chiefly in periods of excess supply. In this respect marketing differs from manufacturing, accounting, and other business functions that are critical in all stages of the economy.

But this is an untenable position. True, if marketers are narrowly seen as responsible primarily for finding customers or increasing demand, then they would seem superfluous when demand becomes unmanageably great. However, in practice *excess demand* is as much a marketing problem as excess supply. A company faces a host of difficult customer-mix and marketing-mix decisions in periods of excess demand. It has to find ways of reducing total demand or certain classes of demand to the level of supply without damaging long-run customer relations.

Our name for this kind of activity is "creative demarketing." More formally, we define demarketing as *that aspect of marketing that deals with discouraging customers in general or a certain class of customers in particular on either a temporary or permanent basis*. The tasks of coping with shrinking demand or deliberately discouraging segments of the market call for the use of all the major marketing tools. As such, marketing thinking is just as relevant to the problem of reducing demand as it is to the problem of increasing demand.

Once this view is appreciated, the true character of marketing's mission becomes clearer. Marketing is the business function concerned with controlling the level and composition of demand facing the company. Its short-run task is to adjust the demand to a level and composition that the company can, or wishes to, handle. Its long-run task is to adjust the demand to a level and composition that meets the company's long-run objectives.

In this article we will describe three different types of demarketing:

1. *General demarketing*, which is required when a company wants to shrink the level of total demand.
2. *Selective demarketing*, which is required when a company wants to discourage the demand coming from certain customer classes.
3. *Ostensible demarketing*, which involves the appearance of trying to discourage demand as a device for actually increasing it.

(A fourth type, *unintentional demarketing*, is also important but does not need to be considered here. So many abortive efforts to increase demand, resulting actually in driving customers

away, have been reported in recent years that the dreary tale does not need to be told again.)

## General demarketing

At times excess demand can characterize a whole economy, and at other times, only a limited number of firms. Even in the absence of a general scarcity economy, there are always individual sellers who are facing excess demand for one or more of their products. While most other



companies may be looking for customers, these sellers face the need to discourage customers, at least temporarily. Their marketing stance may become one of indifference or of arrogance. In a responsible organization, however, attempts are made to act in a framework that respects the marketing concept, i.e., the long-run aim of developing satisfied customers.

It is possible to distinguish at least three different situations that may give rise to general demarketing by a company. Let us consider each situation briefly.

### Temporary shortages

Many companies have the periodic fortune—or misfortune—of finding particular products in excess demand. Management underestimated demand, overestimated production, or did both. The following cases illustrate:

◇ Eastman Kodak introduced its Instamatic camera in the early 1960's and found itself facing runaway demand. A few years passed before Kodak achieved enough capacity to handle demand.

◇ Wilkinson Sword introduced its new stainless steel blade in the early 1960's and was besieged by regular and new dealers for supplies, not all of whom could be satisfied.

◇ Anheuser-Busch underestimated the rate of growth in demand for its popular Budweiser beer and found itself in the late 1960's having to ration supplies to its better dealers and mar-



kets while it was making a crash effort to expand its plants.

◇ Savings and loan associations in 1970-1971 faced an oversupply of savings relative to their ability to invest the funds and sought means



to discourage the savings customers. They were willing to encourage small accounts, but refused large depositors.

These cases reflect temporary shortages of products that are corrected as the company manages to bring about sufficient plant expansion. In the interim, management must carry out two distinct tasks. The first is that of demand containment, i.e., curbing the growth of total demand. The second is that of product allocation, i.e., deciding which dealers and customers will receive the available product.

*Steps to encourage deconsuming:* Demand containment is the attempt to stabilize or reduce demand so that the product shortage is not further aggravated. This is largely accomplished by using the classic marketing instruments in reverse. To bring about deconsuming, management can:

- Curtail advertising expenditures for the product, modifying the content of the messages.

- Reduce sales promotion expenditures, investing less in trade exhibits, point-of-purchase displays, catalog space, and so on.

- Cut back salesmen's selling time on the product and their entertainment budgets, asking them to concentrate on other products, spend more time in service and intelligence work,<sup>1</sup> and learn to say *no* in a way that customers find acceptable.

- Increase the price and other conditions of sale to the advantage of the marketing company.

1. See "No Sales Force for Sale," *Sales Management*, March 1, 1970, p. 43.

(This may include eliminating freight allowances, trade discounts, and so on.)

- Add to the time and expense necessary for the buyer to procure the product or service—what might be called his "effort and psychological costs"—as a means of discouraging demand.

- Reduce product quality or content, either to encourage deconsuming or to make more of the product available and thus demarket at a slower rate.

- Curtail the number of distribution outlets, using the product shortage as an opportunity to eliminate undesirable dealers and/or customers.

Marketing management does not usually take these steps in isolation, but rather as part of a demarketing mix. It should make judicious estimates of the elasticity and cross-elasticities of the different instruments, i.e., their impact on demand when employed with varying intensity, both individually and in combination. Otherwise, the demarketing program may overinhibit demand, and the company may find itself facing a shortage of customers.

*Alternatives in allocation:* While these demarketing steps are being undertaken, marketing management should also develop a sound plan of product allocation. It must decide how, to whom, and in what quantities to allocate existing supply. There are four plausible solutions to this problem:

1. Management can allocate the product on a *first-come, first-serve* basis. This is a standard method regarded as fair by almost everyone except new customers. Dealers and customers get their stock in the order of their ordering.

2. Management can allocate the product on a *proportional demand* basis. This means determining that the company can satisfy  $x\%$  of total demand and then supplying each customer with  $x\%$  of its original order level. This is also held to be a fair solution.

3. A company can allocate supply on a *favored customer* basis. It determines its most valuable customers and satisfies their demand levels completely; the remaining customers may receive some fraction of their original order levels, with the rest being back-ordered. This is held to be a discriminatory solution, even if an understandable one.

4. A company can allocate products on a *highest bid* basis. The supply goes to those customers who offer the highest premium for early



delivery. While many people consider this an exploitative strategy, economists typically argue that it makes the most sense since the product flows to those who presumably need it most.

Policies for allocating supply should be made by top management with marketing executives playing a central role in advising what impact the alternatives would have on long-run customer relations. If it assumes that the shortage is temporary, management should estimate customer feeling toward the company in the post-shortage period when the demand-supply balance is reestablished. Each general solution involves some amount and distribution of customer disappointment. If the company seeks to maximize its long-run, rather than short-run profits, it should choose solutions that minimize the total disappointment of customers during the period in question.

### *Chronic overpopularity*

There are some real, although perhaps rare, situations where an organization is faced with chronic overpopularity, and it wishes for one reason or another to bring demand down to a permanently lower level. Two situations can be distinguished:

*In the first*, the product's present popularity may be seen as posing a serious threat to the long-run "quality" of the product. For example, the island of Bali in the South Pacific has long been a tourist's dream. In recent years, it has attracted a larger number of tourists than can be handled comfortably with its facilities. The island is in danger of becoming overcrowded and spoiled. If tourism goes unchecked, Bali faces the same fate as Hawaii, which has lost its pristine appeal because of teeming crowds and soaring prices.

The authorities in Bali are aware of this danger and are considering measures to reduce demand. Their demarketing strategy is to reduce the island's attractiveness to middle-income tourists while maintaining or increasing its appeal to high-income tourists. They prefer fewer higher-spending tourists to a larger number of lower-spending tourists (in contrast to the savings and loan example cited earlier). To accomplish this, they will build luxury hotels and restaurants, place their advertising in media reaching the rich, and build a distinct image of catering to the affluent class.

Also because of fear that the area's natural

beauty will be spoiled by congestion, officials in the state of Oregon are demarketing to prospective settlers. But the state does promote tourist trade; the governor encourages people to visit so long as they do not stay.

*In the second* situation, overpopularity is a problem because management does not want the strain of handling all of the demand. For example, there is an exceptionally fine restaurant in London that can seat only 30 persons. Word-of-mouth advertising has been so good that the restaurant is fully booked for months in advance. Nevertheless, tourists without reservations crowd around in the hope of cancellations. They add noise and detract from the intended atmosphere of leisurely dining.

The two men who run the restaurant enjoyed their role as managers of a small, intimate restaurant noted for its fine cuisine. For this reason, they decided on demarketing. They added a doorman who discouraged people from waiting for cancellations and from phoning about the availability of reservations. They also raised the prices. They were able to do all this



without creating increased demand as a result of scarce resources—the reverse phenomenon to be described later in our discussion of ostensible demarketing.

### *Product elimination*

Deft demarketing is called for when a company would like to eliminate a product or service that some loyal customers still require or desire, e.g., a superseded model. Demand at any point in time can be considered as temporarily excessive in relation to the level at which the company prefers to see demand. So as not to create customer ill will, the company's task is not only to reduce production and inventory as soon as possible but also to reduce demand.



Among the demarketing strategies available are: informing the customer as to why the product is being dropped, offering partial or full compensation to important customers who are hurt by the disappearance of the product, and maintaining a minimal stock of the product to satisfy the hard-core customers. These strategies are warranted where the same customers purchase other items from the company and their goodwill must be maintained.

## Selective demarketing

Often an organization does not wish to contain or reduce the level of total demand but rather the demand coming from specific segments of the market. These segments or customer classes may be considered relatively unprofitable in themselves or undesirable in terms of their impact on other segments of demand. The company is not free to refuse sales outright, either as a matter of law or of public opinion. So it searches for other means to discourage demand from the unwanted customers. To illustrate:

□ A luxury hotel catering to middle-aged, conservative people has recently attracted rich hippies who come wearing long hair and odd clothes, and who sit on the lobby floor making



a good deal of noise. This has turned off the hotel's main clientele, and the management must rapidly take steps to discourage further reservations by hippies.

□ An automobile manufacturer of a luxury car purchased mainly by affluent whites as a status symbol has discovered that an increasing number of sales are going to newly rich members of the black community. As a result, affluent whites are switching to another well-known luxury automobile. The automobile manufacturer has to decide whether to let the

market take its natural course, attempt to market to both groups, or to demarket to the new customer class.

□ A small appliance manufacturer wants to keep one of its popular brands in selective distribution, but it receives continuous pressure from marginal channels that want to carry the product. Not wanting to put his product through these channels, the manufacturer faces the problem of depriving them without alienating them.

The common problem faced by management in such cases is that the main clientele is threatened by the emergence of a new clientele. The organization does not find it possible to maintain both clienteles simultaneously. Gresham's Law seems to operate: the "cheaper" segment appears to drive the "dearer" segment from circulation. For one reason or another, the organization expects a higher risk and/or lower return (whether financial or psychological) from the new clientele. The alternative is to demarket selectively to the new clientele.

## Methods & implications

How is this done? When a company markets to one segment of the public, it may discourage other prospects who are unresponsive to, or alienated by, the appeals employed. For instance, advertising which plays up the joys of conventional home life demarkets the product to singles. In this sense, demarketing is the negative of marketing.

Selective demarketing refers to (a) the deliberate choice of segments that are to be avoided and (b) the specific means chosen to ward off the undesired customers. Management decreases the benefit/cost ratio which the wanted segment receives from patronage.

In examples like those cited, the marketer is typically not free to charge a discriminatory price to the undesirable segment. The demarketing mix has to be built out of other elements. Activities like these may be pursued:

◇ The company discourages hope for product availability. The hotel fears it will be out of rooms, or the automobile company indicates that the customer must wait a long time for delivery.

◇ The salesmen do not make calls on small organizations.

◇ The company provides poor service to the undesirable segment. The undesirable customers receive poorer hotel rooms, slower service, in-



solent treatment—all suggesting that their business is not welcome.

◇ The company makes it harder for the undesirable segment to find product channels or information. Auto companies are careful to locate dealerships away from changing neighborhoods, and hotels are selective about where they advertise and who receives their information.

To describe these steps is not to approve them. They are cited as familiar examples of what companies may do to discourage demand from certain classes of customers. The steps may raise thorny issues in social ethics. On the one hand, it seems understandable that an organization should have the right to choose or protect its major clientele, especially if its long-run profits are at stake. On the other hand, it is unjust to discriminate against buyers who have long hair, black skin, lower status, or small orders. The injustice seems especially intolerable if the discriminated buyers are left without equivalent alternatives. In that case demarketing becomes entwined with the social, legal, and political problems relating to unacceptable forms of discriminatory demarketing.

### *Ostensible demarketing*

Sometimes an establishment goes through the motions of demarketing in the hope of achieving the opposite effect. By creating the appearance of not wanting more customers, it hopes to make the product even more desirable to people. The marketer works on the principle that people want what may be hard to get and may even masochistically “enjoy” being neglected by the seller. Consider the following possibilities:

□ An artist operates a small gallery in which hang some of his own and other artists’ paintings. He works in the back room and seems to resent the intrusion of would-be buyers. A buyer has to wait for the artist to emerge from the back room, and even then is treated brusquely. But the sales are good; many persons enjoy being mistreated and buying on the artist’s terms.

□ An antique dealer keeps his store in relative disarray with very good objets d’art buried in dust-laden clusters of junk. Patrons often comment that he would attract more customers by cleaning up his store, eliminating the junk, and thus achieve better presentation. But they may be mistaken. The owner feels he attracts more customers this way, reasoning that people love

a bargain and dream of discovering a Rembrandt buried among the ancient cracking canvasses of third-rate painters.

□ A department store arranges very carefully a stock of new blouses on a counter to make sure all sizes are represented. Then, a few minutes before the first customers arrive, the sales personnel pull the blouses out of their boxes and mix them about in chaotic fashion, ostensibly making the goods less attractive. But



the customers spot the blouses and are attracted in large crowds to the counter in search of a bargain.

□ The managers of a rock concert advertise it on the radio in a discouraging way, saying the crowds will be too large, and that seats are practically sold out. The hidden intention is to increase the number of attendees by attracting those who hate to feel left out.

### *Questions for study*

Marketers have dealt with the problem of increasing demand for so long that they have overlooked a host of situations where the problem is to reduce demand or cope with inability to meet it. Whether the task is to reduce the level of total demand without alienating loyal customers, to discourage the demand coming from certain segments of the market that are either unprofitable or possess the potential of injuring loyal buyers, or to appear to want less demand for the sake of actually increasing it, the need is for creative demarketing.

It is easy to assume that demarketing is only marketing in reverse—product, price, place, and promotion policies can also be used to *discourage* demand. Yet the optimal demarketing mix is not obvious. First, there is the danger of over-reducing short-run demand, which can be more serious than increasing it too much. Second, there is the danger of doing irreparable harm to



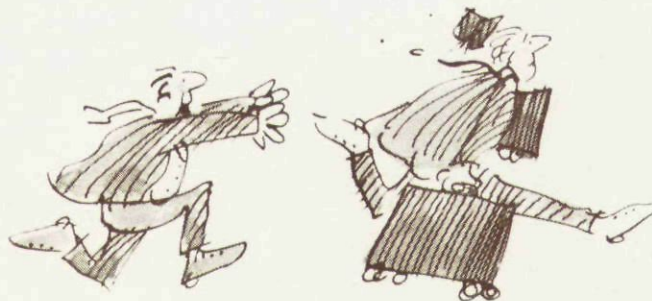
long-run demand through indelicate handling of current customers.

This means that there is a need for careful research into the phenomenon of demarketing. Some important issues are:

1. When do companies face demarketing situations? What are the major types of situations and how extensive are they?
2. What demarketing policies and instruments are commonly used by these companies? How do companies reduce total demand and selective demand? How do they allocate scarce products?
3. What are optimal marketing policies for different demarketing situations?
4. What role is played by marketing management in advising or deciding on appropriate demarketing policies? Does top management recognize that specialized marketing skill is as essential in demarketing situations as in marketing situations?
5. What are the public policy issues and needs with respect to company demarketing practices, especially discriminatory demarketing?

Research into these questions should help clarify the important and neglected phenomenon of demarketing. Of equal importance, it should help establish a more objective and realistic conception of marketing. Marketing's task is not blindly to engineer increases in demand; that view came about because marketing developed during a period of economic growth and surpluses, and it is too casually related to "hard sell" tactics and pervasive advertising. Rather, marketing functions to regulate the level and shape of demand so that it conforms to the organization's current supply situation and to its long-run objectives.

When this view is accepted, it is not necessary to contrast marketing and demarketing. We have used the term "demarketing" to dramatize semantically a neglected phenomenon, but this would not be necessary if all marketing situations were recognized. Marketing inevitably has a role to play in the face of excess demand: the challenge is to demarket thoughtfully and skillfully.



Harvard Business Review Notice of Use Restrictions, May 2009

Harvard Business Review and Harvard Business Publishing Newsletter content on EBSCOhost is licensed for the private individual use of authorized EBSCOhost users. It is not intended for use as assigned course material in academic institutions nor as corporate learning or training materials in businesses. Academic licensees may not use this content in electronic reserves, electronic course packs, persistent linking from syllabi or by any other means of incorporating the content into course resources. Business licensees may not host this content on learning management systems or use persistent linking or other means to incorporate the content into learning management systems. Harvard Business Publishing will be pleased to grant permission to make this content available through such means. For rates and permission, contact [permissions@harvardbusiness.org](mailto:permissions@harvardbusiness.org).