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The Hidden Costs of Hidden Costs

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Abstract
This brief comment expands on the “long macro view” observation of Prof. Robert Lusch that human choices, including market choices, have massive and unseen costs. It is argued here that a central challenge for macromarketing scholars is to make transparent the hidden costs embedded in macromarketing systems and sub-systems so that their true complexity and heterogeneity are better understood. Distributive Justice demands such consideration.

Keywords
marketing ethics, distributive justice, opportunity costs, externalities, unintended consequences

As chronicled in this issue, at the 2015 Macromarketing Conference in Chicago, Prof. Robert F. Lusch, one of the leading thinkers in academic marketing, offered four observations about human behavior. His four propositions, rooted in the essential nature of *Homo sapiens*, are reprinted above and are concisely connected to macromarketing scholarship. Together, they outline how macromarketing concerns are deeply rooted in historic and generic human endeavor. Where one finds humans, there are sure to be evolving markets and complex attendant activities (Layton 2015).

I have been invited to comment on the Lusch presentation, in a manner of my choosing; I am grateful for the opportunity. I am hopeful that this 'conversation', which includes other thoughtful commentators, is the beginning of a continuing dialogue as well as new research streams that may lead to novel or amended marketing insights.

I would like to begin by saying that Bob Lusch is one of those rare, deep-thinkers whose writings are always worth paying attention to because they are nuanced, multi-layered and inspired by a masterful understanding of economic history. In the spirit of full disclosure, I consider Bob Lusch to be not only a valued colleague but a close friend. While in recent years Lusch is probably best known as the co-formulator of Services-Dominant (S-D) Logic (Vargo and Lusch 2004, 2008), he is also the author or co-author of *hundreds* of articles and has been a major contributor to marketing thought in numerous areas--distribution channels (Lusch 1976), retailing (Lusch and Jaworsky 1991), consumer behavior (Dickson, Lusch, and Wilkie 1983), marketing strategy (Lusch and Laczniak 1989) and others.

Importantly, Bob Lusch has also been a "macro" scholar from the beginning; for instance, we find his scholarship in Vol.1, No. 1 of the *J. of Macromarketing* (Laczniak, Lusch, and Strang 1981). Twenty-five years after that, writing in the Silver Anniversary issue of the *J. of Macromarketing*, Lusch (2006) first refined his "long view"—the basic perspective that motivates his 2015 observations about *Homo sapiens* and macromarketing. He writes: "A long view is embraced because it views all economies (hunter-gatherer, agricultural, industrial and information) as having a common foundation" (Lusch 2006, p. 241). That point is essential because, consistent with S-D logic, whatever the 'service for service' exchange, it will be contextualized in a complex, macromarketing system that has evolved over time. The nature of that evolution will affect the character of current and future exchanges.

In his 2015 remarks about "The Long Macro View", Lusch opines, "[My] ideas are not about normative conditions; I think the 'normative' is very important and remains a critical element of macromarketing theory but more reflection on *what has been* and *what is* concerning the evolution of economic systems is required" (Lusch 2015). Because Lusch and I have been frequent collaborators and idea exchangers over the decades, it will not surprise Bob to learn that I will not fully heed his advice; yes, I 'look back" but then I fast forward to comment on the normative, ethical implications for macromarketers flowing from (one of) his core evolutionary observations.

Lusch (2015) observes: "Human choices involve massive and unseen costs". This pithy and very important point is then elaborated briefly:

> "Every choice involves economic or non-economic cost (or both)…almost all of the costs are unseen. The price paid in a market exchange is only a relatively small part of what one pays, and what other actors in the system pay…the amount of unseen cost by government, by organizations, by individuals continues to skyrocket and we don't have the systemic frameworks to understand that."

This singular observation has many implications for macromarketing thinking because it highlights a basic knowledge gap both in macromarketing analysis and in management education. To understand the nuances of different macro sectors, researchers need the frameworks to better uncover "full" costs and strive to make them more transparent. From a normative standpoint, this cost-discovery process is absolutely critical because it lies at the heart of a fundamental *ethical* issue in macromarketing systems and sub-systems—i.e., the concept of *distributive justice* (Laczniak and Murphy 2008). By better unmasking unseen costs, macromarketers will have a more informed idea of whether the 'benefits and burdens' of market outcomes are being "fairly" distributed.

Questions of “ethics and justice” are a central theme of macromarketing scholarship and these concerns of equitable distribution have been a feature of Macromarketing debates for decades (Klein 1977).

To begin to better unveil these unseen costs of market transactions, macromarketers need to pay more attention to three connected areas: *opportunity costs*, *externalities*, and *unintended consequences*. These three areas by no means constitute the universe of “unseen costs” referred to in the Lusch quotation but they provide a reasonable start for auditing some of the hidden costs of marketplace choices.

Opportunity Costs (OCs)

Opportunity Costs are the value “given up” by selecting one of a set of mutually exclusive options (Primeaux and Stieber 1997). These might be thought of as the price of decisions *not* made. OCs can be monetary or non-monetary. If one invests in real-estate, the financial opportunity cost of placing that money in the stock market is lost. A convenient example of non-monetary OC would be choosing to take a walk rather than reading a book; in this instance, the lost opportunity cost is the pleasure and enrichment of reading the book. Opportunity costs are, at best, a limited consideration in most business decision-making. Partly, this is due to managers often reacting to a singular option as it idiosyncratically presents itself. For example, an investment banking firm might approach a movie theatre chain about a possible merger with one of its movie house competitors. Typically, the pros and cons of *only* that amalgamation decision are debated among management rather than expanding the deliberation to other possibilities for using the cash required to undertake such a merger.

Not surprisingly, organizational accounting statements do *not* reflect opportunity costs since these are, by definition, ‘actions not taken’. Furthermore, it must be pointed out that since alternative options for lots of actions are numerous, analysis of too many options can paralyze decision-making. Certainly, *how many* alternatives an executive or public policy maker ought to seriously consider in addressing a particular issue is a matter of managerial judgment, as the classic Harvard Business School case method has long made clear. Thus, *opportunity costing* must be limited for time efficiency sake. However, the key *ethical* issue for OC analysis comes into play when *known* alternatives, having substantial economic and/or societal benefits or costs are intentionally *not* taken into consideration. Analyses regarding market failures often reveal that *known* alternatives (i.e., OCs) are not considered (Redmond 2013).

Looking forward, a deeper contemplation of opportunity costing by macromarketers, even when conducting *retrospective* evaluations of market situations will help shed more light on the efficiency and effectiveness particular market choices and their unseen costs—economic, institutional and social.

Externalities (EXs)

Externalities are a related concept because they address a class of identifiable *effects* from the choices actually made (Mundt 1993). Externalities (EXs) can be defined as the side-effects generated by production or consumption choices that are exercised (Dahlman 1979). Externalities can be negative (NEG EXs) or positive (POS EXs). A classic example of a POS EX would be the roving bees from a bee-keeper’s property that help pollinate the fruit trees of neighboring farms. In this case, a *positive* third-party benefit accrues to the farms, which is not captured in the form of “economic rent” by the source (the bee-keeper). POS EXs are a happy example of incidental altruism, such as when new market development has a significant economic multiplier effect.

The more important societal issue to be considered involves NEG EXs that occur from competitive choices, especially when the side effects of the choices (i.e., costs) are deliberate and knowable. A classic example would be a factory that knowingly discharges effluents into a river adjacent to its plant, causing water pollution. In this instance, society bears a real cost (water contamination), which benefits the cost-structure of the source. NEG

EXs are a major *ethical* issue because they represent a direct violation of the *principle of distributive justice* in that a third party (i.e., society) carries a cost that should accrue to the producer. Obviously, externalizing NEG EXs upon society, because of the inherent cost-savings to the firm executing this strategy, represents a great financial temptation to producers and sellers. The connection of *externalities* to Lusch's call to study unseen costs should be evident. The true cost of exchange in a market system cannot be known without identifying and quantifying NEG EX situations because they directly represent hidden costs of exchange.

Unintended Consequences (UCs)

Unintended consequences (UCs) are the *unforeseen effects* of human actions including market choices (Merton 1936). Of course, UCs can be *internal* such as when a firm purchases administrative software that proves to be difficult to integrate with their existing IT systems. Another way to characterize internal UCs is under the label of 'less than optimal' decision-making. Such UCs are fairly common to management and might be viewed as the cost of doing business. Far more important however are *external* unintended consequences because they place costs on outside parties, typically a segment of society-at-large. A classic marketplace example of external UCs would be manifested problems of product safety. For instance, an automobile manufacturer might fail to foresee that its air-bags do not safely deploy as designed in an unacceptable percentage of cases. Obviously, the well-being of customers/passengers is greatly (and negatively) impacted in this scenario.

UCs are a common feature of market systems and, for that matter, all of human behavior. Unintended consequences can be product of ignorance, error, ideology, complexity and/or other factors. Many unintended consequences are de facto NEG EXs (Polonsky and Wood 2001). For example, mosquito protection nets were used as *fishing* nets in East Africa and the ultra-fine meshing ended up damaging the eco-system of surrounding lakes by hauling in eggs and spawn in addition to edible fish (Kambewa, Ingenbleek, and van Tilburg 2008). UCs also can be quite perverse, such that even the *solutions* to reduce UCs can have unintended consequences. For instance, regulations that mitigate UCs (e.g., environmental feasibility studies required prior to new construction) often have new UCs, which then necessitate additional regulatory fixes, with their own (newer) UCs.

The critical *ethical* question concerning UCs is whether any of the NEG EXs flowing from a market choice *should have been* foreseen if prudential reasoning about the outcomes of the decision had been undertaken by the parties to the exchange. Such inquiry is part of *social* cost-benefit analysis, an underemphasized skill in MBA education, and an important element of macromarketing research even when investigating situations *post-facto*.

Summary

It should be noted that one of the true merits of extant macromarketing scholarship is that there already has been considerable attention to the secondary and tertiary effects of marketing (Nason 1989). However, it also true that the vast majority of these investigations were typically undertaken *after* the social costs of some marketing decision had become apparent (Mittlestaedt, Kilbourne, and Mittlestaedt 2006). An important part of the message endorsed by Lusch involves making the massive unseen costs of human choices more predictable *before* a market choice is made. This means that macromarketing researchers need to develop tools and theory that will better identify these hidden costs prior to choices being made. The knowledge for these insights will come, as Lusch rightly suggests, by looking *backward* at manifest OCs, EXs and UCs. But the obligation to undertake the research effort is owed to *future* generations due to the principle of distributive justice.

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