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Cases in marketing



SECOND EDITION

CASES IN MARKETING

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Preface

The revision of *Cases in Marketing* is the outgrowth of the recommendations that have been advanced by teachers who used the first edition. There is no doubt that the case method of instruction, properly presented, offers students a foundation in analysis and understanding that no descriptive method can achieve.

The cases are based on real business problems—problems that have actually been solved by sales executives. They are, however, problems that are succinct enough in nature to be analyzed without an extensive background of information. The revision of *Cases in Marketing* can be used in conjunction with one of the standard survey texts, or the book can be used independently.

We are indebted to the busy executives who gave their time to help compile the information embodied in the cases. In addition, we owe thanks to our graduate students, who assisted us in gathering some of the raw material on which several of the cases are based. We are also grateful for the recommendations and help that have been extended by many of our colleagues from other universities who used the mimeographed copies of the 33 new cases.

We hope the teachers who use the revision of *Cases in Marketing* will find their classes both stimulated and stimulating, as we have found our classes in using the material in preliminary form.

LAWRENCE C. LOCKLEY
CHARLES J. DIRKSEN

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Cases in marketing

ONE

Marketing as an economic activity

Up to the time of the Industrial Revolution, when many households were largely self-sufficient—even though the standard of living was pathetically low—the general feeling among people was that dealing in merchandise and selling for a price higher than the purchase price of goods was somehow taking advantage of the unfortunate. A great deal of the manufacturing was in the hands of the craft guilds, with consumers buying directly from makers at controlled prices. The three most serious commercial crimes were *forestalling* (buying merchandise before the opening of a market or fair), *regrating* (reselling at a price increase), and *engrossing* (buying merchandise in quantity lots).

Marketing as we know it today did not exist, because merchandise

was not produced in large or uniform lots. When the Industrial Revolution made manufacture in large quantities possible, marketing institutions and techniques had to develop rapidly. As manufacturing facilities and methods improved throughout the years, it was necessary to rely more and more on marketing, as a separately organized economic activity, to move the goods so produced. If mass manufacture is one blade of a pair of scissors, mass marketing must be the other blade.

The tendency in our own economy has been toward a greater and greater concentration of manufacture in localities where specialized labor is gathered, where transportation facilities are satisfactory, and where a network of ancillary supply firms is located. It is axiomatic to say that the greater the scale of manufacture and the greater the concentration, the greater the need for efficient and economical marketing activity.

COST OF MARKETING

Many people have complained that the cost of marketing has risen, that it takes altogether too much of the consumer's dollar to provide that marketing service he needs. Although there can and must be improvement in the efficiency of marketing, this complaint has little substance. The cobbler may make a pair of shoes on order for, say $20, and sell them to the customer who ordered them for a hardly discernible marketing cost. Possibly the maintenance of the small part of his shop devoted to providing space for his customers and the value of the few minutes' time he takes to confer with them and to deliver his finished product might amount to 5 per cent, or even 10 per cent, of the price of the shoes he sells. Under such a situation, marketing costs seem small and reasonable.

Let us contrast this situation with that of today's shoe industry. Taking advantage of every possible mechanical improvement in manufacturing, taking advantage fully of the principle of division of labor, and dealing in raw materials in optimum quantities, a competent shoe manufacturer might produce shoes with factory door costs of four dollars a pair, for which the consumer might pay $10. For half the money

($10 instead of $20), the consumer has been able to buy a far better pair of shoes. Yet marketing costs seem to have risen from 5 per cent or 10 per cent to 60 per cent of the consumer's retail dollar. And instead of buying something tangible and visible, this 60 per cent buys an intangible something called *distribution.*

This new set of cost relationships is not something to deplore. It does not represent an absolute increase in the cost of the same function, but the addition of a new kind of service not previously needed but prerequisite to our taking advantage of the economies and product improvements of large-scale manufacturing. It adds, also, a new dimension to our economy: it adds *demand stimulation*—that encouragement toward consumption that has been one of the causes of our high standard of living.

COMPARISON OF PRODUCTION AND MARKETING

It is not easy, of course, to bring about improvements in manufacturing techniques. Such improvements require many engineering techniques and a wide search for new and better materials. New problems of industrial relations arise when large numbers of workers are brought together to work under impersonal and, as it often seems to them, uninterested supervision. Problems of community relations arise when factories become large and trouble residential neighborhoods with noise, fumes, and decreases in real estate values. Yet, in general, the problems of production are sufficiently tangible, sufficiently concentrated, and sufficiently subject to mathematical analysis to be susceptible to intentional and planned improvement.

Marketing, on the other hand, is partly mechanistic and partly psychological. Manufacturing activity consists of the *centralization* of raw materials into a place where analysis and supervision can both be applied conveniently. Marketing consists of the *decentralization* of materials—as the goods to be marketed flow toward the ultimate consumer—to more and more remote zones where analysis and supervision are harder and harder to apply.

Natural scientists tell us that we stand on the edge of a period of potentially vast improvements in manufacture. The developments in electronics and the possible applications of atomic materials to manu-

facturing will give us almost completely automatic factories. Already one automobile manufacturer is making engine blocks with equipment so completely controlled electronically and with processes so nearly automatic that very little human labor is needed—save for design, maintenance, and attendance. More and more we can expect our scientific developments to increase the rate and diversity of the flow of consumables and to decrease manufacturing costs.

Important as these developments seem to be, they will result only in market gluts, technological unemployment, and catastrophe—unless marketing methods, techniques, and skills keep pace. It does no good to manufacture when we cannot market.

So far, marketing has shown no tendency toward a revolution in techniques. The automatic store is, as yet, a romantic dream. The neighborhood retailer has so far found little use for expensive and elaborate electronic installations. It is true that marketing methods have changed steadily over the years. The methods and precedents of a decade ago are no longer relevant. But there still has been no comparable "revolution."

APPROACHES TO THE STUDY OF MARKETING

Several approaches to the study of marketing have been widely used: the commodity approach, the institutional approach, the functional approach, and the historical and cost approach.

Commodity approach

The commodity approach entails the examination of the successive steps required for the marketing of a series of specific commodities. The usual interpretation of this approach calls for analysis and discussion of sources and conditions of supply, the nature and extent of demand, the channels used in distribution, the functions performed in the various links in the chain of distribution, price, brand, advertising, and other technical applications developed in the marketing of each commodity considered. The chief limitation of this approach is the excessive repetition necessary with the description of the marketing steps for similar products or commodities. Further, there may be a

tendency to impute to the marketing system of differing product characteristics greater influence than actually exists. Nevertheless, the commodity approach is definite and concrete, and leads to specific, if not general, knowledge of marketing.

Institutional approach

The institutional approach segregates each successive step in the marketing system for description and analysis. The various kinds of middlemen, intermediary functionaries, retailers, and even manufacturers' branches or agencies are separately considered. It is a little too easy to allow this approach to be descriptive rather than analytical. It does, however, afford a broader knowledge of marketing, and provides the student with a knowledge of types of firms engaged in marketing, so that he can apply that knowledge to a wide variety of marketing situations.

Functional approach

Under the functional approach, marketing is analyzed on the basis of activities or functions. The entire field of marketing is broken down into the respective functions, such as buying, selling, grading, transportation, and the like. Each function is then analyzed so that its nature, needs, and importance are clear. Many people consider the functional approach to be the most critical and analytic method of studying marketing. Although it avoids duplication and repetition, it is abstract and relatively difficult for the novice to understand.

Historical and cost approach

During the past few years, attempts have been made to develop the study of marketing around the concepts of historical and cost trends. This method involves a careful analysis of the historical development of marketing institutions, and the study of cost trends in their use. Unfortunately, the data required for reliance on this approach are difficult to find, so that it exists primarily as a theoretical method.

It is rare indeed for any text in marketing to follow only one of these four approaches. Rather, a blend of two or more will be used.

But in every instance, the student who does no more than memorize what is put before him in a text will emerge from his study of marketing with little that he can use. He must have understanding as well as facts. He must be able to apply as well as to remember.

MARKETING OPPORTUNITIES

Probably the greatest opportunity in marketing is in the area of demand stimulation. Our methods of materials handling—the physical storage and movement and crating of merchandise—have been well mechanized. But we have not made comparable strides in *selling.*

As the size of the manufacturing unit increases, as a greater responsibility is thrown onto the marketing function of our economy, the opportunities in marketing appear constantly greater. If we do not *sell,* we cannot manufacture. The student who wishes to find a constructive and rewarding career may find that one or another aspect of selling offers him his greatest possibilities.

There is nothing demeaning about selling. Just as manufacturing has an army of semiskilled operatives who tend machines, so marketing has an army of sales clerks and route salesmen. The public looks past the semiskilled machine operatives to the engineer, who has become a romantic figure. But for every lucrative production job, there are probably a dozen high-level selling jobs.

High achievement in marketing is coming more and more to depend on the same analytic qualities that are brought into play in production planning. The engineer is trained for his job. The salesman is rarely so trained. If a resourceful and energetic young man brings to marketing the same earnest willingness to work, the same ability to acquire information and to analyze that the engineer is expected to have, he can find abundant opportunities for a highly satisfying career.

TWO

Use of the case method

There are two facets or levels of knowledge concerning marketing that a student must attain before he is prepared for work in this area. The first is based on the learning of certain facts that, in the aggregate, constitute a description of marketing institutions and an explanation of marketing processes. This knowledge may be interesting, but it is as arid and purposeless as knowing how many common pins are lost on the streets of Memphis, unless it is accompanied by a further refinement—our second facet. This level is based on the development of the principles of marketing and the use of these principles in the analysis of marketing problems.

The beginner in business does not start out by being asked to solve problems or to establish business policy. He starts out by performing more or less routine duties under the direction of someone else. But

as he rises in rank and responsibility, he will have to cope more and more with problem-solving—with determining what should be changed when things are not going well and with finding out how to do things that have not been done before. If he has had the chance to accustom his mind to problem-solving through the case method, he will be ready for advancement earlier and may be expected to show greater competence as opportunity comes to him. Although the case method is not a substitute for business experience, it is certainly one of the best preparations for making that experience fruitful.

NEED OF OUTSIDE READING AND OBSERVATION

The cases used in this method of teaching are narratives of problems that have actually arisen in business. Typically, the identity of each company concerned will have been disguised as far as necessary to avoid revealing intimate business information. All relevant facts necessary for reaching a solution to the problem will be presented. But in each instance, the student will have to obtain general marketing information. When a case mentions the choice among selling through factory sales branches, manufacturers' agents, or distributors, the student will have to look up, in any of the basic texts or handbooks describing the field of marketing, what facts he needs to know about these various marketing institutions.

A man or woman who has worked in some aspect of marketing for a number of years will have stored away a tremendous quantity of information. He will know the types of merchandise that are given counter display space in drug stores. He will know what items other than food are increasingly being offered in supermarkets. He will know something of the relative importance of direct selling and selling through middlemen in department store merchandise. These and many additional facts will be familiar to him because he has learned these facts in the course of his work. As a result, when a marketing problem is presented to him, he already has many of the facts he needs and can proceed immediately to analyzing the problem. Often, he may remember similar problems, and know what solutions have been tried and which ones have been successful in the past. The student, on the

other hand, must get the information he needs before he can proceed to the analysis.

The student who is seriously interested in marketing can rapidly build up a large fund of technical and trade information merely by observation and by asking questions in his normal contacts with merchants. For instance, many supermarkets and many larger drug stores carry hardware store items. In what way does hardware merchandise in food and drug stores differ from the same general type of merchandise carried in hardware stores? This kind of knowledge is important in some marketing problems, and can be learned better by observation than by reading.

Some kinds of merchandise, such as nail clippers, nail files, ear stopples, key rings, lighter flints, and so forth, are offered for sale on counter display cards, with a dozen or several dozen units of the merchandise actually fastened onto the display card. What kind of merchandise sells best with this type of presentation? If the student has observed carefully, he will have seen many such cards in drug stores, tobacco stores, news stands, and similar retail outlets. And he may have noticed fresh looking cards with a number of vacant spaces from which items of merchandise have been taken, indicating that some types of merchandise sell well this way.

What kinds of retail establishments need central locations with dense pedestrian traffic? To what kinds of merchandise do chain drug stores tend to give window space? Do the basement departments of large stores sell cheaper merchandise than the upstairs departments? What kinds of merchandise are most often located on the ground floors of department stores? Do independent food stores stress nationally advertised brands more than do chain stores?

The answers to these and hundreds of other questions are readily available to anyone who is sufficiently interested in marketing to observe when he has a chance, and to remember what he sees. And it is just this type of information that is most needed in solving marketing problems—whether they occur in business practice or in case books. Building up a background of knowledge adequate to bring to bear on a wide range of marketing problems takes a good many years. But even a few weeks of active observation will develop an astonishingly wide background.

APPROACH TO THE CASE METHOD

At the outset, the student will find the case method confusing, not only because he has not yet built up a background of knowledge of marketing conditions and procedures but also because he is probably not used to informal problem-solving. His first impulse will be to go over the cases assigned carefully enough to remember the details presented in them, and he will feel that this type of study constitutes adequate preparation. Actually, however, the information presented in each case takes subordinate place to the determination and formulation of the problem or *issue* involved. Just what problem does the sales executive have to solve? Until this question is answered, there is no "handle" by which to pick up the case. Thus, the student should go over the case hunting for the central issue. What was the goal of management? What steps were taken to reach that goal? Did the plan work? Why, or why not?

This approach to the case will make it easy to pick out the main issue. Not until this point has been reached is it important to have a broad background of information. Almost always, when the problem is located and actually formulated, the question, "What information do I need to solve this problem?" will suggest what the student should look up. From then on, it should be possible—with the necessary information at hand—to arrive at a recommendation that is logical and persuasive.

NO ONE SOLUTION

It is important to remember that few cases have a *right* answer. The solution suggested for the problem should be supported with a logical structure of reasoning and argument. But almost always, in business as well as in the analysis of cases, there may be several plausible ways of proceeding. Should a man's hat of high quality and reasonably high price be distributed through exclusive, selected, or dense distribution? Leading manufacturers have successfully used all three of these methods. To suggest just one way as *the* right way is obviously inadequate. Which of these three methods is preferable for a particular manufacturer will depend on the channels of marketing he is using, the state of consumer acceptance of his brand, the distribution facilities

THREE

The nature of marketing

Marketing is that part of production that creates time, place, and possession utilities. Not until marketing activity has moved goods or services from the point of manufacture to the place at which they are needed, in the quantities they are needed, at the times they are needed, and at a price at which they can be sold will the purpose of production—consumption—be realized.

Because marketing is a continuous process, it is difficult to select one particular assortment of activities that can be regarded as synonymous with the general term "marketing." At first glance, there appears very little similarity between the marketing of Kansas wheat and the marketing of toothpaste. In the first place, the wheat is produced by many farmers, each offering a relatively small part of the total supply. Grown under conditions of varying soils and varying

agricultural skill, the quality of wheat may range widely. From the standpoint of the farmer, the marketing process stops when the wheat is bought by a miller for use as a raw material.

On the other hand, toothpaste will be manufactured under careful controls so that uniform tubes are filled with identical quantities of highly standardized dentifrice. From the viewpoint of the drug manufacturer, marketing is complete not when a few large wholesale firms buy toothpaste for resale, but when hundreds of thousands of consumers located throughout the United States have purchased tubes for consumption.

What happens to the wheat when it is harvested, and what happens to the toothpaste when it moves from tube-filling machines is, in both cases, marketing. Yet the different nature of the two products, the difference between the two types of market, and the difference in type of origin make the two jobs of marketing seem entirely dissimilar. Yet there are several successive steps that must be performed whenever a supply of goods or services is marketed. These steps can be roughly grouped into three categories: (1) physical functions, (2) financial functions, and (3) sales promotional functions.

MARKETING FUNCTIONS

Because of the differences in the specific steps required to market different commodities, scholars of marketing have disagreed in their listing of the several marketing functions. The following listing of functions will be suggestive, if not definitive:

I. Physical functions: Gathering or assembling, standardization and grading, packing, storing, transportation.

II. Financial or commercial functions: Financing, risk bearing, pricing, allocation, transfer of title.

III. Selling functions: Demand stimulation (including advertising, sales promotional effort, product and package improvement), presentation to potential buyers leading to offer-and-acceptance.

DIFFERENT EMPHASIS ON FUNCTIONS

It is clear that different products will require different emphasis among these several marketing functions—depending primarily on

the character of the demand. Thus, in the case of agricultural products such as wheat or cotton, no demand needs to be stimulated by the grower, for the commodities flow almost automatically through a series of pre-established marketing mechanisms. On the other hand, manufactured and branded merchandise enjoys no such advantages, and will flow to consumption only if demand is stimulated.

In the case of wheat or cotton, we regard marketing as moving the product from its many points of origin to the few large firms that will use it as a raw material. The intervention of processing or manufacturing steps so changes wheat that it becomes, in effect, a new product to be marketed. In the case of the toothpaste, we do not regard its marketing as bringing a group of ingredient raw materials from their many points of origin to the hundreds of thousands of households that will ultimately buy the dentifrice. Again, processing or manufacturing has intervened. The suppliers of the ingredients have completed their marketing when the drug manufacturer has bought his raw materials. Our interest in marketing of the toothpaste, therefore, starts when the toothpaste is a completed product.

In general, it is probably simpler to think of marketing as a complete cycle when goods (or services) have gone from a point or points of origin to a point at which they will be consumed or basically altered in form. If we accept this more limited view, then we can draw another generalization: the marketing of raw materials tends to put greater stress on physical functions of marketing, and the marketing of manufactured goods tends to put greater stress on the selling functions of marketing.

RAW MATERIALS COMPARED TO MANUFACTURED GOODS

In marketing cotton, little attempt is made at demand stimulation, and virtually none *can* be made on behalf of a particular cotton farmer. A broad market for cotton exists, and an elaborate pricing and distribution system exists for the crop as a whole. Cotton of a given length of staple is, practically speaking, interchangeable. Each farmer contributes so little to the aggregate supply that he cannot appreciably influence demand, price, or methods of marketing. This almost automatic flow through pre-established marketing mechanisms virtually precludes the application of initiative by the producer.

On the other hand, the manufacturer who attempts profitably to market a room cooler will, of course, have to crate, store, and transport his individual room coolers, but will place his greatest emphasis on the sales promotional or selling functions of marketing. In the first place, although his room coolers will be uniform in characteristics or specifications, he will endeavor to make them different in some important way from room coolers of competing manufacturers. He is not selling to a broad and established market, but to a group of companies and individual consumers who will constitute a market only if his selling functions have been performed with efficiency and effectiveness.

If the several marketing functions are interpreted broadly enough, they will apply to both these situations. But the essential difference, somewhat more basic than a different emphasis among the several functions, is the opportunity for applying initiative.

INDUSTRIAL MARKETING AND CONSUMER MARKETING

There is often said to be a major difference between industrial marketing and consumer marketing. In the first case, goods and services are sold to business establishments for processing, or for the use in or facilitation of processing, of other goods that will then be marketed. In the second case, the goods are sold to consumers who will use up or destroy them in the act of consumption. With industrial goods, quantities dealt in are expected to be larger, and buying motives more nearly rational. With consumer goods, quantities are likely to be small, possibly in units, and buying motives are likely to be emotional because the goods are purchased to give personal satisfaction.

The differences, however, are not so much separated by type of market as they are by nature of product and quantities dealt in. The manufacturer who sells paper clips will be undertaking a form of industrial marketing, yet will sell in relatively small quantities to a market comprising a great many widely separated purchasers. Though the buying motives may be rational rather than emotional, the marketing activities are very likely to be much like those for consumer-goods marketing.

The householder who buys fuel oil to heat his house is very likely

to buy in about the same way as an industrial buyer. It is only when he buys products of direct rather than derived demand, and buys to satisfy wants that can be satisfied with one of a number of alternate and competing offerings, or when he chooses between satisfying alternate wants that emotional buying motives are likely to dominate his actions.

PERFORMANCE OF FUNCTIONS

Marketing functions must be performed to bring about consumption, whether of agricultural or manufactured products, or of industrial or consumer goods. But the particular functions emphasized will be difficult to achieve. They will vary by the nature of the product to be marketed, by the quantities in which it is to be marketed, by the nature of the demand that it will satisfy, and by the degree of differentiation or lack of differentiation of the product itself.

GUIDE QUESTIONS

When consideration is given to the marketing of a product, there are four questions that may be even more helpful to think about than the list of marketing functions.

1. Does the product satisfy a human want, realized or latent?
2. Is the product itself adjusted to meet this want—in its form, in its size or quantity, in its packaging, and in its price?
3. Can channels of distribution be selected that will make the product available to consumers (industrial or ultimate) conveniently, efficiently, and economically?
4. Can demand be stimulated so that an adequate market will support the marketing effort?

L.&D. Stores, Incorporated — 1

MARKETING FUNCTIONS OF A CHAIN FOOD STORE

L.&D. Stores, Incorporated, a Massachusetts corporation, was organized in April, 1927. The company operates a chain of retail stores in

19 states, the District of Columbia, and the 4 Western Provinces of Canada.

For many years the trend in the retail business has been toward large volume stores and more efficient ones. For example, the average number of stores operated by L.&D. 25 years ago was 3,124 with average sales of approximately $1,500 per week as compared with 2,131 stores 10 years ago with average sales of approximately $10,270 per week and 1,925 stores this last year with average sales of approximately $16,768 per week.

L.&D. was one of the first food chains to adopt a "buy-build-sell-lease" real-estate program for securing large volume stores, warehouses, and other facilities at desirable locations and also for limiting the permanent investment in real estate. The program includes the purchase of carefully selected lots for building stores with adjoining parking space, the construction of buildings thereon, and sale of the property at or about cost with a long-term lease from the purchaser.

Ten years ago, L.&D.'s tentative plans involved the construction of approximately 500 retail locations within two years. L.&D. completed 35 retail locations in the first year, 100 in the second year, and 95 more in the third year. During this same period, the company closed over 500 of its former stores.

The original plans of L.&D. were modified so that the program now involves the construction of not more than 100 stores annually. The new stores feature air-conditioning, self-service meat sections, refrigerated produce, and enlarged frozen food, dairy products, and bakery goods departments. Most of the stores have adjoining parking space for 100 or more cars.

The retail stores in the L.&D. Company deal in groceries, meats, fresh produce, beverages, bakery and dairy products, frozen foods, and other goods usually sold in the general retail food business. Sales include nationally known and distributed merchandise as well as products sold under trade marks and brands owned or controlled by the company. Most of the stores stock frozen food products, and self-service prepackage meat sections are installed in substantially all new stores and in many of those that have been modernized. All stores are of the self-service type and operate on a cash-and-carry basis.

In connection with its business, L.&D. operates 23 principal grocery warehouses, 15 produce warehouses, 10 bakeries, 6 meat distributing warehouses, 5 fluid milk plants, 4 coffee-roasting plants, an

evaporated milk plant, 5 creameries, 6 dressing plants, 2 fruit-canning plants, a vegetable-canning plant, a cracker bakery, 8 cake plants, 4 jam and jelly manufacturing plants, 6 soft-drink bottling plants, a poultry-dressing plant, a fish-processing plant, an oleomargarine and shortening plant, a cereal-processing plant, a sausage and meat processing plant, a cheese manufacturing and aging plant, 4 butter-churning plants, and a number of branch warehouses.

Fifteen years ago, L.&D. completed arrangements with 7 commercial banks for financing reserve and processing stocks of merchandise. All but approximately 15 per cent of the cost of the merchandise is financed through self-liquidating bank loans. The plan provides for the purchase of merchandise of Youngton Commodities, a wholly-owned subsidiary, with funds obtained from bank loans for the processing and storage of this merchandise and for its subsequent sale to L.&D. Seven years ago, the banks renewed their commitments to make approximately 90-day loans to Youngton providing for an aggregate credit at any one time of $10,000,000.

It is the policy of L.&D. to operate its stores and other properties in premises held under lease rather than in company-owned properties. The business is competitive with other chain store companies and numerous independent stores and markets. On the basis of sales volume, L.&D. ranks among the first five food chains in the United States.

QUESTIONS

1. Enumerate the marketing functions that L.&D. must perform in its operations. Explain.
2. Are there any marketing functions that the individual stores in the L.&D. chain fail to perform?
3. What functions are involved in the "buy-build-sell-lease" policy of L.&D.?
4. Would all large chain stores perform the same marketing functions as L.&D. does? Why or why not?
5. How would the functions of the independent food store compare with those of an L.&D. store? Would it be necessary for an independent store to perform fewer or more functions?
6. Would the functions in the four coffee-roasting plants of L.&D. be considered as production or marketing functions? Is the packaging of the coffee into one- and two-pound containers a marketing or production function?

Mrs. Bernatha Cobden — 2

DECIDING ON A MARKETING APPROACH

Ten years ago, confronted with the need for making a living after the death of her husband, Mrs. Bernatha Cobden undertook to develop a catering business for church groups and women's clubs in the vicinity of Santa Ana, California. For the first two years, she was kept reasonably busy and was able to make a modest living. But in the latter part of the second year, a new, attractive restaurant was opened on a highway leading to Santa Ana, and a number of her customers began to hold organization dinners there. As a result, she was forced to look for some other way to augment her income.

For some time, she had made a specialty of serving an orange marmalade of exceptional quality at her catered dinners, and it occurred to her that she might package this marmalade and market it profitably. The marmalade was translucent and amber in color. She had discovered a method of imbedding an orange or lemon blossom in each jar of marmalade with a treatment that kept it from turning brown, and of adding a little synthetic lemon fragrance. Because there was considerable hand labor involved in inserting the blossom, her costs were relatively high.

Early the next year, she bought a supply of two-ounce glass containers and made up small quantities of marmalade to see whether she could sell it profitably. As a result of her own calls on various kinds of stores in and around Santa Ana, she found that she could get several gift shops and several stores selling souvenir merchandise to tourists in Santa Ana and in Laguna Beach to stock small quantities of marmalade on consignment. With a retail price of 50 cents a jar and a 40 per cent margin for retailers, she was able to clear 10 cents a jar over her costs of materials, fuel, and the wages of one woman hired on a part-time basis. This margin of 10 cents included compensation for her own work in preparing and selling the marmalade and her profit. In this year, although her accounting methods were not exact enough to determine accurate results, it appeared that she had broken even. In the following year, she earned $347.

At the beginning of the next year, she offered the marmalade not only in single two-ounce jars but also in attractive but inexpensive

redwood boxes containing three two-ounce jars at $1.75. Her total revenue above costs for that year was $463, and about 40 per cent of her volume was accounted for by the boxes of three jars.

The individual jars had merely a decorative top with no other information than that required by law. But the redwood boxes were labeled "Cobden's California Conserve" and carried her Santa Ana address. Two years later, she began to get mail orders from various parts of the United States, chiefly before Mother's Day, Thanksgiving, and Christmas. As a result largely of the mail orders, her revenue for the year increased to $793.

During the period in which she had merely sold small quantities of merchandise to local stores, she regarded the revenue from the marmalade as supplemental to her income from catering. But as unsolicited mail orders began to arrive, she felt that she might have a product of promising marketability. She had had little business experience other than that acquired through her catering and through the small-scale selling of the marmalade through local stores, and she had no appreciable amount of money to invest in developing a wider market for the product.

Although she believed that her marmalade was of as high a quality as could be manufactured, she realized that its high price precluded its use as a staple item of food, and believed that it would continue to be a gift and holiday item.

For guidance, she called on several executives of grocery store companies in nearby Los Angeles and on the advertising manager of her local newspaper. They told her that she might attempt to build up a steady mail order business and called her attention to the mail order advertising that regularly appeared in such magazines as *House Beautiful, American Home, Better Homes & Gardens,* and the magazine section of the *New York Times.* They also suggested the possibility of using food brokers in major eastern cities. Most of them suggested that she attempt to find a partner with some capital and specific experience in the food field.

Although Mrs. Cobden did some advertising in several western newspapers under the classification of "Business Opportunities," she was unable to locate anyone willing to enter into a partnership with her; finally she decided to attempt to build a larger market without outside help. She could not, however, determine what her most promising approach to the market might be.

QUESTIONS

1. Would the demand for Mrs. Cobden's marmalade be limited primarily to the category of a gift and holiday item? Are there other potential demands which might be profitable?
2. What would be the important basic factor that would determine Mrs. Cobden's approach to the marketing of her product?
3. Do you believe Mrs. Cobden should attempt direct distribution of the marmalade? If not, would food brokers serve as satisfactory outlets?
4. From the information in the case, does it appear that there is an adequate demand for this product? How significant is the fact that she has received unsolicited mail orders?
5. What are some of the major marketing problems that Mrs. Cobden must solve?
6. How important is the fact that Mrs. Cobden has developed a superior product?
7. What marketing procedures would you recommend?

Robden Glass Company — 3

IMPORTANCE OF MARKETING FUNCTION

John Robden started the Robden Glass Company ten years ago to develop materials to insulate jet engines. After experimentation, he devised a process for producing fibrous sheets of matted fibers from specially constructed fiber glass laminates.

Through this process, the company was able to manufacture high and low temperature insulation, which was sold principally to customers in the aircraft and aircraft supply business. All sales were handled by four engineers, who dealt directly with the customers, and by Mr. Robden, who spent about one-fourth of his time in sales activities.

Although the sales of the company continued to show a modest growth each year, the total volume of Robden did not increase as rapidly as did the business of its competitors. Robden had active competitors in all of its fields of operation; the company had, however, established and maintained a reputation for products of high quality and technical superiority. It was, therefore, difficult to ac-

count for its failure to maintain its market position in the rapidly growing aircraft industry.

Since its beginning, Robden had conducted extensive research into new methods of processing fiber glass and had established a special research department to work on insulation problems.

Mr. Robden was a trained scientist and had been in charge of the research department of a large company before he started his own firm. When he selected his sales personnel, he did not necessarily look for men of great sales ability. He chose men solely on the basis of their technological competence. He believed that his sales engineers had to know more about the problems of the customers than did the engineers who worked for these firms.

As Mr. Robden stated, "We do not have a marketing problem with our company. Our job is to stay ahead of our competitors in developing new products through research, and then to manufacture these products at the lowest possible cost so that we can sell them at a competitive price.

"There are companies in the food, automobile, clothing, appliance, and other akin fields that sell to the ultimate consumers. These establishments have to estimate sales potentials, consumer preferences, sales promotion, and scientific sales techniques in order to sell their products.

"On the other hand, we could not use marketing strategy of this type because we might find that, after setting a quota or planning some special promotional plan, our competitors would devise a change in a product that would improve it to such a degree that our customers would stop buying from us.

"Besides, we sell to a limited number of accounts. Actually, I do not like even to use the word 'sell' since our customers buy from us because we have the right product for their needs."

Mr. Robden refused, therefore, to use any formal marketing planning or training techniques to improve the contact work of his sales engineers. He recognized the value of these procedures for companies in other industries, but did not believe that he could use any of these methods for his own company.

QUESTIONS

1. In what manner might Mr. Robden make use of formal marketing planning?

2. Do you agree with Mr. Robden that he does not have a marketing problem? Why or why not?
3. Contrast the need for technical know-how of salesmen with their ability to sell.
4. What would you recommend that Mr. Robden should do to increase sales?

Hadsell Packing Company — 4

USE OF SALES PLANNING

The Hadsell Packing Company is a medium-size canning organization that packs such vegetables as peas, carrots, beets, spinach, corn, and tomatoes, and such fruits as peaches, pears, apricots, prunes, figs, cherries, plums, apples, and grapefruit.

The company followed a policy of selling its product to wholesalers and jobbers, who sold the various canned products under their own labels. The sales of one of the new products, a special "dietetic-pack" that the company had recently begun to pack, were about 50 per cent below the volume that the company had forecast. As a result, Hadsell was faced with the problem of determining what policy the company should adopt to increase the sales.

The dietetic-pack was developed by Hadsell's chemists to satisfy the demand for canned fruits without sugar and canned vegetables without salt, primarily for people with diabetic, dietary, and other health requirements.

The executives of the company had decided to use the same channels of distribution for the dietetic products and therefore distributed them through the regular customers, who put their own labels on the products. In analyzing the market, Hadsell found that because of the limited sales that the wholesalers were realizing on the dietetic-pack, they used a 20 per cent margin on the products and recommended a 50 per cent margin to the retail trade.

The company executives believed that the high margin on the products was the main reason that the sales were unsatisfactory, and asked the wholesalers to use a lower margin.

The wholesalers did not agree with the suggestion and indicated that the potential market for products of this nature was such that

price was not an important determinant in the quantity that was purchased. They emphasized that once a doctor prescribed dietetic-pack items, the patient bought the products regardless of the asking price. It was their belief that the reason sales did not increase rapidly was that a large number of people did not rigidly follow doctors' prescriptions.

The wholesalers admitted the dietetic-pack was of high quality and that it was difficult to distinguish these products from those to which sugar and salt were added; nevertheless, they believed that there was a psychological barrier that prevented customers from buying these in preference to the regular items.

Hadsell's executives were not satisfied with this reasoning and decided to explore the possibility of using some other method of distribution. After considering several ways, they concluded that they would distribute the dietetic-pack under a special Hadsell label. Since the company had never marketed under its own label, however, the executives did not have enough information about the ultimate consumer market to determine whether their wholesalers were correct in their diagnosis of this market.

The executives were also faced with the need for ascertaining the future for dietetic-pack demand. It was their own personal opinion that this market was a rapidly expanding one because of the emphasis that doctors placed on special diets for certain health conditions. They had never studied this market themselves, however, but had relied on secondary information they had obtained from a number of trade sources.

QUESTIONS

1. Indicate the reasons why you believe the sales of the dietetic-pack did not respond satisfactorily.
2. What procedure would you recommend to the executives for planning their sales policies?
3. In what ways would the short-range sales planning differ from the long-range sales planning?
4. How might the company determine whether it was advisable to sell the dietetic-pack under its own label?
5. Does this case illustrate the principle of elasticity of demand?

Company X — 5

WHAT THE "MARKETING CONCEPT" IS

Sales Department Charts I, II, III, and IV were presented by the sales manager of Company X* to his operating committee at the request of his president, who wanted to explore the management idea now referred to as the "marketing concept."

The operating committee, which consisted of the president, sales manager, personnel manager, controller, and production manager, had in previous talks determined what their new marketing-concept organization pattern should be. Before finally adopting a new plan, they wanted to review the evolution of the firm's sales structure, and asked the sales chief to give a report on his department's history.

He prepared a series of explanatory charts and presented them at a meeting of the operating committee. Here is what transpired.

The sales manager referred first to Chart I, which gives a picture of the company when it began to develop a national market. At that

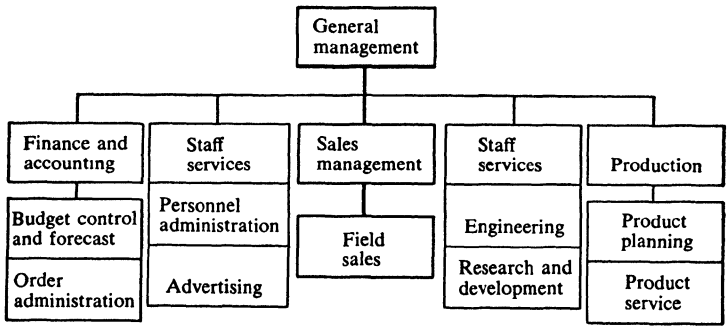


Chart I

Original organization

time selling was limited to order-getting, and there were disputes over lack of coordination between personal selling, advertising, promotion, order-handling, and service.

* Eugene B. Mapel, National Sales Idea File No. 2, December 1957; Sales Executive Responsibilities, reprinted with special permission.

The sales manager then explained why adoption of the structure indicated in Chart II was a major improvement.

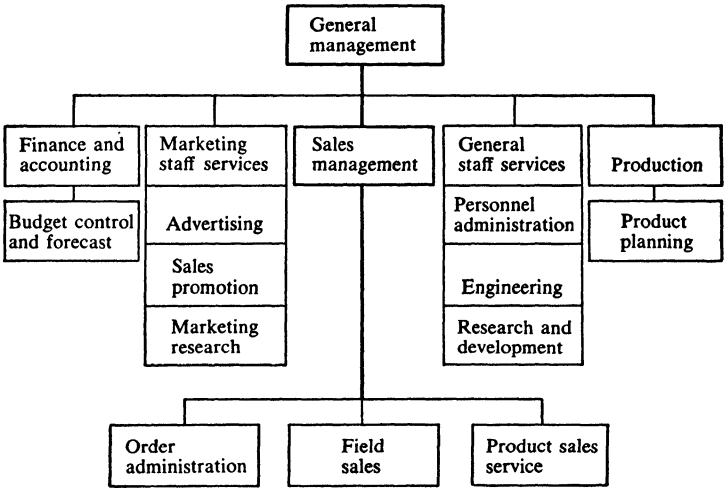


Chart II

First reorganization

Next, he introduced the chart of the current organization (III). He recalled that it had been difficult to convince management that separate managers should head up advertising and promotion, sales training, and marketing research, or that it would be a good investment to enlarge the sales department and to include these staff functions under the general sales manager.

The sales manager then turned to the chart of the proposed organization (IV), pointing out how staff service and line selling functions are grouped separately. "Each function has a separate head," he said, "but they are all integrated under the direction of the marketing manager."

The change in structure does not appear great when viewed step-by-step in this way, the sales manager observed.

Concluding his presentation, he reminded the operating committee

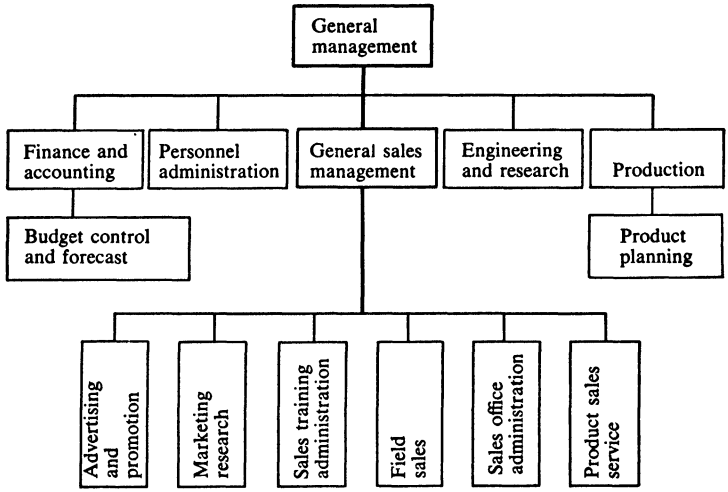


Chart III

Second reorganization

that the marketing manager's responsibilities were basically selling responsibilities.

"However," he explained, "these have grown over the years to include not only all functions directly related to selling, but also a few that cannot be classified strictly as selling functions. We use the more comprehensive term—marketing—because these added functions contain elements of profit-consciousness and over-all planning not inherent in the strict definition of selling."

"Well and good," responded the president, "our sales manager reviewed the evolution of the marketing concept in our company. Now, gentlemen, we need to define it.

"As I see it, the marketing concept is a philosophy we will apply to the operation of our business in which customer and consumer needs will be uppermost in importance. These needs will govern the separate planning of each function of the business, as well as the overall plan aimed at achieving our predetermined profit objectives.

"In the light of the presentation just completed by our sales man-

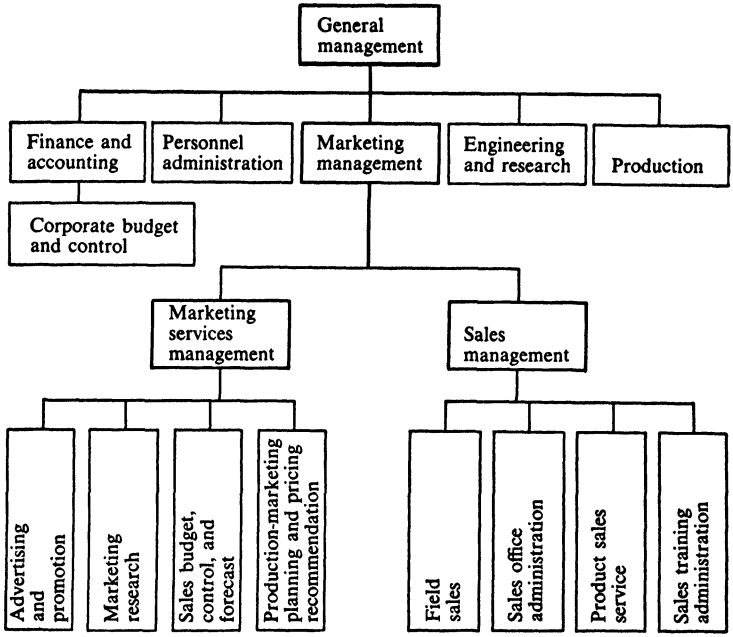


Chart IV

Final organization

ager," he added, "I can understand why many successful sales executives are wondering what all this fuss over the marketing concept is about. It probably seems to them that the only new thing about it is the term itself."

"In my opinion, gentlemen," said the controller, "there is something new for our company in this concept; and I mean something more than just a new technique here and there, a reshuffling of responsibility, a few new words, and a lot of excitement. One new thing should be the effect it will have on profits. If we all work under a coordinated plan with predetermined profit objectives, our operating efficiency has to improve. Our sales manager has been selling us on the application of this concept for years, but from now on he won't

have to sell it over everyone's dead body. The important new thing will be our full cooperation."

The production manager seemed to think this last remark was directed at him. When he took the floor in his own defense, it became apparent that he was going to resume the age-old debate on the relative importance of manufacturing versus marketing.

"If the manufacturing end of our business wasn't efficient enough to produce quality products at low cost," he proclaimed, "there would be no marketing!"

Unlike many such debates in the past, this one ended quickly. The sales manager for once avoided the obvious rebuttal. Why? Because he understood that his adversary's denunciation of marketing was only semantic.

"In your last remark," he told the surprised manufacturing executive, "you have outlined your contribution to the marketing concept with admirable brevity and accuracy."

To get the meeting back on the track, the president reviewed the proceedings up to that point and applied them to the next step in solving the problem at hand: selecting the management personnel to make the new organization work.

"So far," he said, "we have learned that the marketing manager's job is not really a new one. It is merely a change in the title of sales manager, brought about by an evolutionary increase in responsibilities under his supervision, and calling for a supporting organization to make each function work most effectivcly and in balance with the other functions."

"I have been impressed," said the personnel manager, "by our sales manager's analysis of the situation. It seems to me he not only understands the marketing concept but has been the motivating force in our progress toward this philosophy of operation. In short, we have always had a marketing manager—let's start calling him that.

"The next move is to select the two principal supporting executives: manager of marketing services and sales manager. Let's evaluate our own people first. We should review each man's role in our marketing organization in relation to detailed descriptions of the new positions. If we don't find the men within our own organization, we must look outside, but let's not do that unless we are convinced we don't have reasonably good candidates in our own back yard."

The details of this company's solution to the problem of organizing under the marketing concept may not apply to all companies

adopting this new basic philosophy of operation. However, the approach illustrated by this example has universal application.

The large majority of prospective marketing managers will be found in selling management. But the same approach in another set of circumstances could lead to the manager of advertising and sales promotion, to the marketing research manager, even to the production manager, as the most likely candidate for the marketing manager job.

A review of the evolution of one cosmetic company's functional organization showed that the advertising and sales promotion manager, as might be expected in this type of business, had gradually assumed major planning and coordinating responsibilities in the company's marketing function. In another company, producing highly technical custom-built products, the production manager's role in the marketing function indicated that he had been the leader in the firm's progress toward application of the marketing concept and should assume the marketing manager's responsibility.

Careful review of company organizational history and each executive's contribution to its marketing concept may fail to turn up a good prospective marketing manager and supporting staff. In that case a thorough overhauling of the marketing end of the business is probably needed and perhaps could best be accomplished by an outside consultant firm. Hazy understanding of the marketing concept may lead to the belief that it is a radically new precept imposed on management by long-haired theorists. From here it is a short step to the conclusion that the man to apply such a precept will not be found among existing company executives.

An experienced, qualified person brought to a company from outside may be successful in overhauling and managing the company's marketing function, but such action should be considered only when it is not possible to develop an existing staff member for this purpose. Bringing a marketing executive into an organization involves a few hazards. Some of these, like the possibility of unpredictable personality clashes, are unavoidable. Others, however, can be avoided with preparation and effort. Most important of these is the tendency of management to be disappointed when those they select fail to accomplish overnight what has taken many marketing executives all of their working careers to master.

In organizing under the marketing concept, no matter how, the most important points to remember are:

1. Look for marketing management at home first.
2. Don't expect to appoint men to manage a concept—recognize that the concept must manage the men.

QUESTIONS

1. Point out and indicate the reasons why the organization of Company X has developed in the manner which it has.
2. What is meant by the "marketing concept"?
3. Give the advantages and disadvantages of the Final Plan.
4. Is the marketing manager's job just a change in title?
5. What should be the qualifications that a person should have to serve as marketing manager?

FOUR

The consumer

Lincoln Foundation — 6

ANALYZING CHANGES IN THE POPULATION

As a result of the First National Conference on Aging, the Lincoln Foundation decided to investigate more thoroughly the problems of aging to find out how serious they were. In order to carry out the project, the group asked Dr. D. M. Kramer to give an introductory report on existing conditions.

In his report Dr. Kramer indicated that during the first half of the twentieth century Western civilization had developed around a child-centered world, but that in recent years there has been an increased interest in the problems of the aged. The United States, because it has been required by voters to become paternalistic, is gradually assuming responsibility for the care of its aged.

As time goes on, the problems of aging become more poignant. In 1850, about 2.6 per cent of the population was 65 years old or more. In 1950 this same age group made up 8.2 per cent of the population and accounted for 12,322,000 persons. It has been estimated that by the year 2000, 13.2 per cent of the population in the United States will be over 65. Even by 1980, 40 per cent of the population is expected to be 45 or more years old. When issues on an election ballot are based on age, they are usually decided in favor of those over 40 years of age because this group comprises the majority of the population.

The field of geriatrics is very similar to that of pediatrics—simply at the opposite end of the life span. Although the type of adaptation is different and the medical problems vary considerably, the same basic problem, of making adjustments to new situations that present themselves each day, must be dealt with.

Until recent years little had been done to analyze the later years of life, because of their complexity and the difficulty and lack of interest in studying them. A child has many years ahead of him in which to benefit by the efforts expended on him, whereas the mature person has a comparatively short life expectancy. However, if the goal is to "add life to years and not merely years to life," it is an economic and social necessity to examine the later years with considerable care.

In the nineteenth century it was relatively common for boys of 16 or 18 to raise families; today, it is quite uncommon. Because many young men and women continue their education for years beyond the period of compulsory education, their economic dependency has been extended. These young people also resent as a burden the dependency of older age groups because it is felt generally that they have little to contribute to society.

The problem of aging resolves itself, therefore, into four main issues:

1. How can these older persons be kept economically independent?
2. How can they live near their friends?
3. How can they be kept mentally alert and growing?
4. How can they be protected and cared for so that they will be able to adjust to new situations?

In 1900 the average man lived only one or two years after retirement; today he lives about 10 years. However, only one-third of the

people who reach the age of 65 are able to support themselves and are not dependent upon the earnings of others.

What is the cause of this? Those who should be retired early because of poor physical condition are often permitted to work until they reach the normal retirement age, whereas many able bodied men are forced to retire as soon as they reach 65. Pensions, social security, and savings are inadequate in most instances to meet the increased cost of living and medical expenses. The decreased value of the dollar is another contributory factor. The average person cannot save enough to support himself after he retires.

Psychological aspects of retirement present many problems as well. People who have nothing to live for seem to die prematurely. Retirement often brings unhappiness because people are forced to change their habits and are frequently separated from their friends. Recent experiments by members of the educational profession in group living and retirement have shown how necessary it is to keep friendship patterns intact.

An older person becomes insecure when his confidence in his earning power, physical stamina, and social desirability is shaken. If he can face his problems realistically and seek the best solution to them, he may make a successful adjustment. If not, his anxiety will be expressed in somatic symptoms and apprehension concerning his future.

Women fear old age more than men do because of the emphasis in our culture on woman's appearance, attractiveness to the male, and need for security. This fear is accentuated by lack of flexibility or unwillingness to accept changes.

Older persons tend to be lonely. They often lack social interest and become self-centered and introspective. They live in the past and find it increasingly difficult to live amicably with others. This type of behavior, found to a lesser extent in children and young adults, is not impossible to overcome.

The many medical problems of old age are being handled as a medical specialty to a considerable extent today. Actually, the prevention of chronic disease during the aging years should begin even before the birth of a child. Although physical health is important, to enjoy it one must maintain good mental and emotional health as well.

The preventive medical aspects of geriatrics are no different from those of preventive medicine in any other field. They depend upon procedures to obviate chronic disease, early recognition of the condi-

tion, and the securing of adequate, prompt treatment and rehabilitation.

In reviewing the various studies made on the problems of the aging, one is impressed with the lack of consideration for prevention of problems found in the aging process. It seemed that all efforts were directed toward extinguishing the fire and none toward preventing it.

QUESTIONS

1. Why is the study of geriatrics important to marketing executives?
2. A cannery that distributes baby food nationally is planning an advertising campaign emphasizing the reasons why individuals over 65 should eat this food. What do you think of such a campaign?
3. What kind of products will appeal to this older group of individuals in the market?
4. How important is the market of people over 65 to the manufacturers of (a) baked goods; (b) canned foods; (c) beauty preparations; (d) furniture; (e) clothing; (f) houses; (g) shoes; (h) medicine; (i) television sets; (j) watches; (k) typewriters; (l) books; (m) gardening equipment; (n) "do-it-yourself" equipment; (o) automobiles; (p) hardware and paint?
5. What recommendations would you advance as to how we might develop a program to make these older persons more self-sufficient?

Ducto Company — 7

DECIDING ON THE MAJOR CONSUMER MARKET

The sales manager of the Ducto Company recommended to his management that it should begin to place its major emphasis on the teenage market for its toothpaste promotion. Although Ducto had always recognized the importance of this market, it had followed the policy of appealing primarily to the over-25 age group.

Ducto Company is a producer of toothpaste, toiletries, and proprietary drugs. The business of the company is carried on principally in the United States, but a small amount of business comes from Canada, Great Britain, and Mexico.

There is keen competition in each of the fields in which the com-

pany operates. The company sells to wholesalers, retail stores, pharmaceutical companies, and industrial concerns.

Through a vigorous sales policy, based upon extensive advertising to men and women over 25, the company has developed a number of brand names and trademarks. Because Ducto is one of the smaller companies in its industry, its management believed that it had to be selective in its advertising program.

The sales manager, in presenting his recommendation, summarized the following information, which he had learned at a recent conference.

1. Half of all first brides reach the altar before the age of 20½. In fact, one-third of all 18- and 19-year-old girls already are married. Other bridal market statistics disclosed: (a) more girls marry at 18 than at any other age; (b) more than 3 million girls will marry in the next five years; (c) more than 500,000 teen-age girls marry each year; (d) 38 per cent of all brides are young women under 20.

2. Many enterprising auto dealers are attempting to develop customer interest in the new models through original and creative promotional campaigns directed to teen-agers. Some dealers sponsor campaigns that not only build customer interest, but instill safety-consciousness among the teen-age population. Called Be-Hep-Hints, the advertisements invite teen-agers to submit safety suggestions. These advertisements also point out to parents that for every car sold goes a free two-hour session with a trained mechanic. The mechanic's job is to explain the specialized characteristics of the auto and how to drive it in the safest, most economical manner.

3. Estimates indicate that shoe production will fall short of the industry's goal of 600,000,000 pairs. In order to achieve its cherished goal, the industry must put more emphasis on early and intelligent planning, and on vigorous and sustained promotions to teen-agers. It should present the kind of front that has been so productive of successful promotional programs in other industries to the younger group.

4. Since winter vacations for older employees are becoming more and more popular with business firms, it becomes even more important to point toward the teen-age market. Most firms now permit split vacations with several companies specifically stating that employees eligible for four-week vacations divide their time equally between summer and winter. As a result, it is more difficult to reach the older groups.

QUESTIONS

1. Who makes the decision for the purchase of toothpaste in a family? Give reasons why.
2. How important is the teen-age market for a product of this nature? If the product is accepted by teen-agers, will they continue to buy it when they become older?
3. Do you believe that the Ducto Company should place its major emphasis on the teen-age group?
4. Does the appeal to a teen-age group and the older group have to be different for the promotion of toothpaste?

Television and the Consumer — 8

EVALUATING THE DESIRES OF THE CONSUMER

Jackson Trelz, the director of advertising for the Pen Company, stated, in a speech at an advertising forum in New York, that telecasters did not have any responsibility for offering educational programs, or for attempting to present television programs which were intended to improve the taste of the public.

Mr. Trelz believed that it was unreasonable to expect anything but entertainment from commercial television. He emphasized that the public gets what the majority wants. If the majority will not support good programs, the sponsors cannot afford to provide good programs.

It was his opinion that the public had no right to blame the telecasters for not doing a job that they do not intend to do, have no obligation to do, and could not possibly afford to do. Advertisers are in business to win an audience for their companies by giving that audience what it wants to see. The only norms of judgment, according to Mr. Trelz, are the rating of the program and the sales which result.

In answer to Mr. Trelz's remarks, Dr. John Anthony, a leading educator, expressed the viewpoint that sponsors do have a social responsibility to offer programs with cultural uplift. He argued that advertisers develop the taste to which they appeal. In his opinion,

they are not justified in simply producing what is easiest and cheapest in reaching what is almost the equivalent of a captive audience.

Dr. Anthony further indicated that, although there were about 30 channels devoted exclusively to education, the area these stations covered was very limited. He envisioned a complete national network devoted to full-time televising of superior cultural and educational programs.

Mr. Trelz countered that programs of a high cultural level appealed only to a minority. As a result, such programs would have to be subsidized or endowed by either the government or some private agency.

Although Dr. Anthony admitted that the initial cost might be high, he did not believe that the issue of the kind of entertainment was one of public control versus private enterprise. Rather, in his opinion, it was one of whether or not the medium of television was so important that it should be monopolized by popular entertainment and commercial interests that were only looking at it from the short range point of view.

He believed that the consumer had displayed remarkable patience in putting up with low level programs for too long a period. "If advertisers do not set the pace," Dr. Anthony stated, "then, there is no other alternative but to have government control. When one considers the great possibilities for education and mature cultural activity that could be obtained through television, it is fantastic to allow this valuable medium to be channeled so completely into the sterilities of routine thrill-mongers and stale jesters."

QUESTIONS

1. Should the desires of the consumers be the factors that determine the kind of TV programs to put on?
2. Does the advertiser have a responsibility to try to educate the consumer to enjoy more cultural programs?
3. Who has the responsibility to improve the tastes of the consumer?
4. Do you agree with Mr. Trelz that an advertiser should give the public what the majority wants?
5. If you were deciding on a television program for a company, what procedures would you follow in selecting a program?

E. J. Reavy — 9

USING S. & H. GREEN STAMPS

E. J. Reavy telephoned the Fillmore Department Store and informed the credit manager that, because his wife was refused S. & H. Green Stamps on a $145 bill which she had paid the day before, he was closing his account.

About five years before, the Fillmore Store executives had started the policy of giving stamps as a result of a study made among their customers. At that time, the customers indicated that one of the most important factors in determining the store from which a national brand item would be purchased was whether or not the store offered Green Stamps.

The controller estimated that it would cost the Fillmore Store about 3 per cent of sales to offer the stamps. Therefore, he adopted the general plan used in most other stores, whereby Green Stamps are given on all cash sales and on credit purchases paid prior to the 15th of the month following the date of purchase. Fillmore would not only benefit from the advertising value of giving the stamps, but the plan would also encourage customers to pay their bills promptly.

During the five years in which the Fillmore Store had been offering the stamps, a number of problems arose from time to time with the customers. Some people would pay after the 15th of the month and demand their stamps. In other instances, merchandise would be ordered toward the end of one month but would not be delivered until the early part of the next month. On a number of such occasions, the customers insisted that they had an extra month in which to make payment and to qualify for the stamps. Sometimes when the bills were paid by mail, customers would fail to indicate that they wanted the stamps sent to them. In other cases, the stamps would be lost in mailing. There was also misunderstanding on the part of many of the customers who made installment purchases as to why they were not eligible for stamps when they made their monthly payments. There were problems resulting from delivery of merchandise and from adjustments on trades. In some instances, merchandise was taken out on ten-day approval, which still further complicated the policy of who was or was not entitled to the stamps.

Adjustments were constantly being made to keep the customers'

good will. The controller decided that the method of granting Green Stamps was too flexible and that too many customers were taking advantage of the liberal policy of the Fillmore Company. As a result, in October, 1958, he sent a written memo to the customers in which he stated that those who had been granted one or more adjustments in order that they might secure their stamps would not be given any more adjustments in the future. Those who had never been given any adjustment would be allowed one, but they would have to show that some mistake had been made.

The controller informed Mrs. Terrold, the credit manager, that it was her responsibility to carry out this policy and that he wanted her to be very strict in dealing with people who asked for consideration. The company had kept very accurate records of every adjustment that had been made over the five-year period and was in a good position to enforce this change in policy.

The Reavy misunderstanding resulted from Mrs. Terrold's refusing to grant an adjustment to Mrs. Reavy. On December 30, 1958, Mr. and Mrs. Reavy purchased a maple dining room table for $167.50 and asked to have an appraiser come to their home to let them know how much they would receive on a table which they were going to turn in. The appraiser called at the Reavy home on December 31 and offered $22.50 for the old table. Mr. Reavy then called the store and asked to have the table sent out; he requested that the $22.50 be credited against the purchase price of $167.50.

The new table was delivered on January 5, and the men picked up the old table and gave Mr. Reavy a credit memo for it. On January 10, the Fillmore Store sent a bill to the Reavys for $167.50. Mr. Reavy immediately telephoned and explained to one of the girls in the credit department that a mistake had been made in his bill. He asked her to send him a corrected statement so that he could pay in time to get his stamps. She informed him that she would take care of the matter and would send him a corrected bill.

The new statement did not arrive until February 1. Mrs. Reavy was not able to get downtown until February 3, at which time she called at the credit office and explained the problem to the credit manager. Mrs. Terrold listened to the explanation and then said, "I will have to check our records before I can give you an answer, Mrs. Reavy, so will you excuse me for a minute." After checking the records, Mrs. Terrold returned, and the following conversation took place:

MRS. T.: I am sorry Mrs. Reavy, but I will not be able to give you any Green Stamps. Our records show that we made an adjustment for you three years ago.

MRS. R.: I am positive that no adjustment was ever made for me. In fact, I don't think that this is an adjustment. The girl in your office made the mistake.

MRS. T.: Do you know which girl your husband talked to?

MRS. R.: No, my husband didn't get her name.

MRS. T.: You should know, Mrs. Reavy, that it is always important to get the person's name. It is impossible for me to find out who talked to your husband. I have told all the girls that they are never to make any agreements of that kind without first consulting me.

MRS. R.: The fact is that my husband did not bother to ask the girl's name and believed that she would take care of the request for the corrected statement.

MRS. T.: We are having a problem with these girls. They will promise so many things when they have no authority to do so. Yesterday, one of them even went so far as to tell a customer that he could have an extra ten days to pay his account. Luckily, I overheard the conversation and was able to put the customer straight.

MRS. R.: While you were talking, I recalled that about three years ago I had to sign a special slip for some stamps. The store had a policy that when purchases were over $100 we had to call for the stamps at the store. We bought some drapes and other furniture and had a bill that month of $475. When I sent the check for payment, I was notified that I would have to come into the store to pick up the stamps. One of my youngsters became sick, and it wasn't until the end of the month that I was able to get to the store. When I asked for the stamps, I was required to sign a slip before the stamps were given to me.

MRS. T.: There might have been such a policy, but I know nothing of it. I have been here for over two years, and we have always sent the stamps in the mail regardless of the size of the check.

MRS. R.: I am positive that was your policy at that time. I want you to know that I really do not care particularly for the stamps, but right now it is the principle that is important to me. The Fillmore Store made a mistake, and I feel that you should rectify it. I am entitled to the stamps, and I expect to receive them.

MRS. T.: It is impossible for me to do anything at this time. I will have to let you know later.

MRS. R.: What do you mean, later?

MRS. T.: I will have to check with the controller and will get in touch with you by letter.
MRS. R.: When can I expect that letter?
MRS. T.: I will be sure to send you a letter by tomorrow.
MRS. R.: By the way, since you are emphasizing names so much, what is your name and position?
MRS. T.: My name is Mrs. Terrold, and I am the credit manager.
MRS. R.: Goodby Mrs. Terrold. I will expect to hear from you tomorrow.

When Mrs. Reavy returned home she and her husband discussed the matter at some length; both were quite shocked at the way in which Mrs. Reavy was treated. The next day, a form letter arrived from the Fillmore Store stating: "No adjustment can be made on your stamps because a prior adjustment has already been made." Mr. Reavy immediately picked up the phone and called Mrs. Terrold. He said forcefully, "I want you to know, Mrs. Terrold, that I am completely disgusted with the way you treated my wife. I want you to close my account immediately."

QUESTIONS

1. Recognizing that Green Stamps will cost a store 3 per cent of sales, what policy should be followed in giving them to customers?
2. How important do you believe stamps of this kind are in attracting customers?
3. What could the Fillmore Store do at this time to secure Mr. and Mrs. Reavy's business again?
4. Do you believe that the strict policy of the controller in giving stamps is a sound one?

Gruen Watches — 10

RESULTS OF A CONSUMERS' REPORT

In the November, 1953, issue of *Consumers' Research Bulletin,* four of Gruen's watches (Curvex Marshall, Veri-thin Master, Autowind Clipper SW, and Auto-wind Neptune SW) received B (Intermediate) ratings in the test made on men's wrist watches.*

* This factual digest is reprinted by special permission from the November, 1953, issue of *Consumers' Research Bulletin,* Washington, New Jersey.

Consumer's Research is a nonprofit institution whose primary objective is to supply the consumer with trustworthy, scientifically based information about the articles the consumer needs before he buys them. It was formed originally to take care of the flood of inquiries from readers of *Your Money's Worth* by Stuart Chase and F. J. Schlink. After spending a half year of week ends, holidays, and evenings in answering the questions from readers who wanted further advice on their buying problems, Mr. Schlink decided to expand the White Plains Consumers' Club which he had previously organized. In December, 1929, the Consumers' Club was incorporated as Consumers' Research, Inc., designed to do on a larger scale the work undertaken by the volunteer organization. By 1953, the membership was said to be somewhat less than 100,000.

The first step in planning a test is to make up a list of brands on which information has been in demand by subscribers, as well as the brands in widest distribution. The nature of the tests to be applied is worked out by engineers familiar with the best method to use in making a test on the products.

When the test report is completed, Consumers' Research staff men look over the findings to determine which product merits an A (Recommended), B (Intermediate), or a C (Not Recommended) rating. Next a digest of the test report is written up for the *Bulletin,* which is sent each month to the members. It was in this monthly bulletin that the report on men's wrist watches was carried.

Some of the more significant comments in the report were the following: Because of the very large number of brand names which exist in the watch trade (there are around 3,600 watch names in a recent trade list, watches made or marketed by over 200 distributors and three American manufacturers), it is wholly out of the question to provide anything even approximating complete coverage of the various makes and qualities of movements.

It is a startling fact little known to the ultimate consumer that to a very large extent the buying of a watch is the buying of a brand name, for a well-known, well-advertised name may add as much as $100 to the price of a watch without adding additional quality. It is also true that for 99 per cent or so of consumers, everything needed in a watch—except perhaps top style, beauty, and exclusiveness of case—can be gotten in watches in the $30 to $50 bracket. (Occasionally a watch priced as low as $20 to $25 will perform well.) It is a point of interest to consumers that in the current test the four watch samples that gave the poorest timekeeping performance were

in the $50-and-over class, while a considerable proportion of those found best in timekeeping performance were priced under $50 or not far above that figure.

It is well to bear in mind that no brand name can itself guarantee quality in each and every movement of a given maker. On the other hand, it is certainly unwise to buy a watch of an unknown or little-known brand name, particularly from department stores, which often advertise unidentified makes of watches.

The claim that a certain watch is a "precision" timekeeper should be given no weight at all, for that word, not being defined in clear, quantitative terms, is much used in the watch trade without any definite meaning and, of course, with no guarantee of accuracy of timekeeping in various positions, temperatures, and hours since winding.

The policy of Consumers' Research is that it will make additional tests for any watch manufacturer on his brand, provided he will agree in advance to authorize any or all of a number of jewelers who carry a sizeable stock of his make to furnish samples on a loan basis to CR for the tests; provided further that the watches to be furnished will be on a strictly random basis, and exactly as such watches would be found by the average consumer in jewelers' stocks, without selection or special adjustment of the watches to be tested.

Table I below lists the recommendations that Consumers' Research made on the men's wrist watches included in the test. Prices include federal tax:

Table I

A. RECOMMENDED

Manufacturer and watch name	*Price*	*Jewels*
Bulova		
Belmont	$33.75	15
*Senator	42.50 (3)	17
*President-A	49.50 (3)	21
President-C (2)	49.50 (3)	21
Elgin (see also Wadsworth)		
Thorndale	33.75	17
*Stockton (Two examined)	37.50	17
No watch name	49.75 (3)	17
Girard-Perregaux		
*Sea Hawk	47.50	15
*No watch name	47.50	17
No watch name	50.00	17
*No watch name	55.00	17

*No watch name	57.50	17
*No watch name	65.00	17
No watch name (2)	65.00	17
No watch name (SW)	71.50	17
Hamilton		
*Lambert	57.75	17
*Barton "B"	60.50	17
*Grover	64.00	17
Jeffrey	64.00	17
Darrell	65.00 (3)	17
Boulton	71.50	19
Cranston	71.50	19
Longines		
Champlain (2)	71.50	17
*President Johnson	100.00	17
President Jefferson II	115.00	17
President Roosevelt	125.00	17
Montgomery Ward		
Buren (1) (Cat. No. 45-802)	24.95 (3) + Postage	17
*Buren (Cat. No. 45-802)	24.95 (3) + Postage	17
Omega		
Automatic (SW)	71.50	17
Automatic (SW) (2)	71.50	17
Automatic (SW)	95.00	17
Sears, Roebuck #		
Orvin (Cat. No. 4-0350E)	24.95 (3) + Postage	17
Rolex #		
*Oyster Perpetual	132.50	17
Wittnauer		
Ensign (SW)	55.00	17
Wyler		
Incaflex (1)	49.75	17
*Incaflex	62.50	17
Incaflex, Dynawind (SW)	65.00	17

B. INTERMEDIATE

Benrus		
Commander	35.75 (3)	15
Sharkey	100.00	17
Croton		
Aquamedico	33.50	17
Aquamatic (SW)	49.50	17
Cyma #		
Tavannes	57.50	17
Gruen		
Curvex Marshall (2)	*49.75* (3)	*17*
Veri-thin Master	*49.75* (3)	*17*
Auto-wind Clipper (SW)	*71.50* (3)	*17*
Auto-wind Neptune (SW)	*71.50* (3)	*17*

Rolex Tudor		
Tudor Oyster (2)	59.50	17
Tudor Oyster	59.50	17
Wadsworth (Div. of Elgin National Watch Co.)		
No watch name	29.75	17
No watch name	32.50 (3)	17
Automatic (SW)	49.75	17
Westfield		
Standish	24.75 (3)	7
Cameron	29.75 (3)	17
Keith	29.75 (3)	17
Wittnauer		
Lawrence (2)	62.50 (3)	17

° One of the watches tested showing superior timekeeping performance.

Number of samples tested of watches of a manufacturer or distributor so designated was too small perhaps to afford a basis for more than a limited and tentative judgment.

[1] Watch developed trouble during test and would not run a full day after being fully wound.

[2] Relative large position errors.

[3] Price includes bracelet (other watches were furnished with strap).

(SW) Self-winding ("Automatic") watch.

QUESTIONS

1. What effect on the sales of Gruen watches do you believe this report would have?
2. How significant are consumer reports such as those of Consumers' Research, Consumers Union, American Medical Association, and the Department of Commerce in guiding the demand of the consumers for specific products?
3. What should be the policy of the manufacturer when his product is not rated as highly as those of his competitors on consumers' reports?
4. What action would you recommend be followed with the Gruen watches?
5. Should Gruen ask Consumers' Research to make additional tests?

The Danta Villanova Glass Corporation — 11

CHANGING A PRODUCT TO MEET CONSUMER DEMANDS

The Danta Villanova Glass Corporation was forced to decrease the effectiveness of one of its products, Acoustical Tile, because of the peculiar demands of the consumers.

Villanova products are formed from glass drawn into thin filaments of various diameters, some as fine as $\frac{1}{300}$ the thickness of a human hair. The many desirable properties of glass are retained—fibers of glass are incombustible, moisture resistant, durable, and dimensionally stable. In addition, glass in fiber form can be flexible, resilient, and has excellent thermal and acoustical properties.

Villanova manufactures 80 basic types of products, many having the variations in dimensions and density required for the particular use to which they are to be put. The company's products can be classified into the following four groups:

1. Villanova "wool" products, used for thermal insulation and acoustical applications.
2. Villanova textile products, consisting of strands, yarns, and cords, used by other companies in the manufacture of electrical insulation and decorative and industrial fabrics.
3. Villanova Sealor, an extremely light-weight wool product used in heating, air conditioning, and ventilating and in industrial processes.
4. Villanova mat products, consisting of porous sheets used principally in the manufacture of storage batteries and as a protective wrapping for underground pipes.

From Villanova "wool," the company manufactures a number of products. The basic "wool" is treated with a resinous binder and compressed to the desired thickness and density. It is then formed into sheets, boards, blocks, and panels of desired dimensions, shapes, and flexibility. The wool when so treated can also be fabricated with facings or enclosures of paper, cloth, or metal mesh or can be coated or saturated with bitumens or resinous cements for varied applications.

One of the products that the company manufactures from Villanova "wool" is Acoustical Tile. The panels are cut into blocks 12 inches square and $\frac{3}{4}$ of an inch thick. Any color can be put on the face of the tile through a special process.

Acoustical Tile is excellent for sound control and sound quieting, and will not burn. There is a large potential market for its use as a ceiling in offices, schools, and commercial buildings of all kinds, such as super-markets, department stores, and factories.

The company ran extensive tests and concluded that its Acoustical Tile was superior to similar products of its competitors. The tile was offered on the market in a variety of colors without any holes in the face of the tile.

Sales were so unsatisfactory that the company made a study of the market to determine the reason. During the investigation, the consumers expressed the opinion that unless holes were punched into each piece of Acoustical Tile, it would not be effective in quieting sound; they also preferred a white tile. They had been so conditioned for a period of 15 years by the advertising of manufacturers who used other materials that they would not accept the new product.

The company experimented with punching the same number of holes (884) in each piece of tile as did its competitors, who had to use the holes so that their materials would control sound. In the tests which were made, the holes decreased the effectiveness of Villanova Acoustical Tile, but since it still rated above the products of the competitors, the company decided to offer it on the market in its new form.

The tile was painted white, and each piece contained 884 holes. Sales immediately began to increase, and within a short period of time had reached the desired level. Other experiments were run in punching holes farther apart, but in every case sales results were unsatisfactory. Even architects were reluctant to accept the tile without the holes, although the company showed them how it was more effective that way.

QUESTIONS

1. Do you believe that a manufacturer should follow the dictates of the consumer when doing so results in an inferior product?
2. Should the Danta Villanova Glass Corporation have followed any other policy with its Acoustical Tile? Why or why not?
3. List other similar situations in which manufacturers have been affected by the demands of the consumer in determining the quality of the product which they will manufacture.
4. Does a manufacturer have an obligation to the consumer to continue to produce the best possible product even if the consumer prefers one that is less effective or satisfactory?

The Merchants Association of Putnam — 12

DECIDING ON ADOPTING GREEN RIVER ORDINANCE

Putnam, a county-seat town with a population of 14,593, is located in the agricultural area of a midwestern state. Farms in the surround-

ing country side are prosperous; they specialize largely in wheat, soya beans, and hogs. Putnam serves as the major trading center of a circle roughly 35 miles in radius. Approximately two-thirds of the retail sales of Putnam merchants are made to farmers in the surrounding area. The town has, among others, two hardware stores, a general drygoods store, two building material firms, three farm supply stores, several men's and women's clothing stores, two jewelry stores, three drug stores (which also handle agricultural chemicals and veterinary supplies), and several food stores.

Throughout World War II and the years immediately following, retail sales were excellent. In 1952, they dropped slightly below the 1951 level, and showed an appreciable further drop for 1953. In a meeting of the Merchants Association toward the end of 1953, this decline in sales was discussed. Several of the retailers attributed it to the drop in the price level of farm products. Most of the retailers, however, blamed the decrease on their loss of business with out-of-town firms who sent in sales crews to solicit business on the basis of house-to-house canvassing. It was pointed out that one firm had sold substantial quantities of sterling silver tableware through such house-to-house selling. It was known that one contracting firm had sold five house painting contracts, and ten jobs of re-siding dwellings with asbestos shingles. It was known that two men had been selling so-called custom-tailored men's suits, that the representative of a firm manufacturing a new type of power lawn mower had made a number of sales. Although the figures were based largely on guesses, the consensus was that 1953 sales for Putnam merchants would have exceeded the high point year of 1951 if they had been able to get the business that had gone to out-of-town firms on the basis of house-to-house selling.

A petition was therefore drawn up, and signed by all but three of the Putnam retailers, asking the Putnam Municipal Council to enact the Green River Ordinance. This ordinance had been enacted in several hundred small towns throughout the United States since it was first passed by the Green River, Wyoming, Town Council in 1931. Whereas it had been declared invalid by state courts in some eight states, it had been upheld in others, and had not been tested in the courts of the state in which Putnam was situated. The wording of the ordinance—which had been followed almost literally by a great many of the towns adopting it—was as follows:

"Ordinance No. 175

"Be it ordained by the Town Council of the Town of Green River, Wyoming:

"Section 1. The practice of going in and upon private residences in The Town of Green River, Wyoming, by solicitors, peddlers, hawkers, itinerant merchants and transient vendors of merchandise, not having been requested or invited to do so by the owners, occupant, or occupants of said private residences, for the purpose of soliciting orders for the sale of goods, wares, and merchandise, and/or for the purpose of peddling and/or hawking the same, is hereby declared to be a nuisance, and punishable as such nuisance as a misdemeanor.

"Section 2. The Town Marshal and Police Force of the Town of Green River are hereby required and directed to suppress the same and to abate any such nuisance as is described in the first section of this ordinance.

"Section 3. Any person convicted of perpetrating a nuisance as described and prohibited in the first section of this ordinance, upon conviction thereof shall be fined in a sum not less than Twenty-five ($25.00) Dollars or more than One Hundred Dollars ($100.00), together with costs of proceedings, which said fine may be satisfied, if not paid in cash, by execution against the person of anyone convicted of committing the misdemeanor herein prohibited.

"Section 4. All ordinances and parts of ordinances in conflict with this ordinance are hereby repealed.

"Section 5. It being deemed by the Town Council of the Town of Green River that an emergency exists, this ordinance shall be in force and effect from and after its passage and approval.

"Passed this 16th day of November, 1931."

QUESTIONS

1. Should the Putnam Municipal Council adopt the Green River Ordinance?
2. What are some of the problems that the city will face if the ordinance is adopted?
3. Give the pros and cons of this kind of ordinance.
4. Do you believe the ordinance is for the best interest of the people of Putnam? Why or why not?
5. If such an ordinance were adopted throughout the United States, what would be some of the economic implications?

Cladiron City — 13

DETERMINING ON A CONSUMER POLICY

The mayor of Cladiron, a city of 150,000 population, emphasized, in his yearly report, that the peculiarly American custom of commercializing religious days and civic holidays was coming to be one of the more blatant aspects of the free enterprise system. Many of these holidays, he said, are so associated with sales promotional campaigns that their significance has been lost. Almost every Sunday has become a date on which to start promotion of a particular class of merchandise.

As examples he pointed out that Ash Wednesday, the beginning of Lent, leads into Pencil Week, Good Friday, the most solemn day in the Christian calendar is in the Let's Play Ball Week; Easter Sunday marks the beginning of Honey for Breakfast Week; Mother's Day collides with National Frozen Food Week and Leather Goods Week. Father's Day gets the National Bow Tie Week started. The mayor pointed out that the emphasis on Sunday business in Cladiron had developed so much in the sales of groceries, real estate, and automobiles that some of the firms made over 25 per cent of their weekly sales on Sunday. The mayor urged the merchants to take immediate action in their trade association meetings to restrict Sunday openings.

At the following meeting of the 15 Cladiron new automobile dealers, two-thirds of them voted to close on Sunday. This majority was adequate, under the by-laws of the organization, to enforce Sunday closing. The group decided to run the advertisement as given in Exhibit I.

Exhibit I

Notice

Effective February 1, the members of the Cladiron Motor Car Dealers' Association will close both their new and used car departments on Sundays.

This Sunday closing has been effected to allow the employees of these organizations to attend to their religious duties and to spend more time with their families.

In addition, it is our belief that this new policy will be of benefit to all of our customers.

The members of the Association who had voted against the Sunday closing did not believe that consumers would accept the new policy.

It was their opinion that customers wanted to shop for automobiles on Sunday because it was the one day in the week when both the husband and wife were free. The action did not include dealers who sold only used cars.

Shortly after the new automobile dealers had run the Sunday closing advertisement, the Cladiron realtors recommended Sunday closing of real estate offices and elimination of Sunday real estate "open houses."

The Home Builders of Greater Cladiron opposed the policy and issued the following statement:

> Sunday is and has been the only time the average family has to look at houses. Shopping for a house is not like shopping for a car or television set. Each house is fundamentally different.

The Cladiron realty board, however, said every effort would be made to close offices and eliminate open houses on Sundays and holidays, although the policy would not prevent showing of homes to prospective buyers on Sunday by previously arranged appointments.

The Board believed that the policy would encourage higher professional standards in the real estate business and provide real estate men with a day off.

At the same time, the four major department stores in Cladiron decided to open on Sundays to compete with discount houses and markets, which were siphoning off a portion of their trade.

Although 39 states have laws banning nonessential work on Sundays, the enforcement of these laws has been lax, except in scattered instances, for many years.

The department stores in Cladiron contended that the buying habits of consumers had changed, and, in order to satisfy them, it was essential to keep open on Sunday. Neither did they believe it was the obligation of the stores to try and change these habits.

QUESTIONS

1. How important do you believe are the changes in the buying habits of customers that have resulted in more stores staying open on Sunday?
2. Evaluate the decision of the new automobile dealers, the real estate board, and the department stores.
3. How can the new automobile dealers meet the competition of the used car lots that remain open on Sunday? What procedure can the real estate members use?

4. Assuming the consumers prefer to shop on Sunday, do business firms have an obligation to try and change these buying habits?
5. Should business firms be required to observe Sunday? What business firms should not be required to observe Sunday?

Swank Store, Inc. — 14

EVALUATING THE PRINCIPLE OF LIBERAL RETURNS

The Swank Store, Inc., follows a policy of selling its merchandise at prices below those of its competitors. The company applies to its cost of merchandise a percentage markup lower than is typically used in department and specialty stores.

To make its pricing policy feasible, the Swank Store provides few services, sells on a cash basis, encourages customers' self-service in most departments, and generally limits overhead expenses.

In line with its sale policies, the company places particular emphasis on purchasing merchandise at lower prices than those paid by its competitors for comparable goods. As opportunities arise, the company buys from manufacturers quantities or lots of items remaining unsold after the normal forward buying season of the retail trade for such merchandise. Volume purchases of surplus stocks, close-outs, and job lots are frequently made.

All sales are on a cash basis. The store makes no deliveries. In certain departments, where practical, the merchandise is placed on open racks or in bins from which customers select the article without the assistance of a salesclerk. After choosing the desired article, the customer presents it at the cashier's counter, where it is wrapped and paid for. The duties of floor personnel are confined principally to keeping merchandise arranged, to making the selection by customers as easy as possible, to supplying information, and to supervising operations generally.

The store does no manufacturing or styling. Its merchandise is bought in the open market from a large number of manufacturers by a staff of 55 buyers and assistant buyers. Advertising is placed in leading newspapers that have large circulations in the company's trading area.

Among the items sold by the store are women's and misses' furs, coats, suits, dresses, gowns, housecoats, robes, blouses, sweaters, skirts,

jackets, sportswear, gloves, and a variety of accessories; a complete line of boys' and young men's coats, men's haberdashery, suits, slacks, jackets, robes, sweaters, and accessories; a complete line of teenagers' and girls' suits, dresses, sportswear and accessories; a complete line of tots' and infants' clothing, infants' shoes, accessories, and layettes.

Alterations are not made on any merchandise, except furs. The company permits some lay-away purchases and maintains a liberal refund policy that enables customers to return, without question, any merchandise within six days after the date of purchase, provided the price tag is still attached to the article at the time of return.

After taxes, the final net earnings of the Swank Store amounted to only 0.7 per cent of sales in 1953, as compared to 1.7 per cent in 1952. In analyzing the statements, the controller pointed out that the returns of merchandise had increased from 10.7 per cent of sales in 1952 to 13.45 per cent in 1953. He considered the higher returns and allowances as the most important factor contributing to the declining profit margin.

Through its low price policy, the store had developed over the years a large volume of business with young married women, college girls, teenagers, and other young men and women who were very budget conscious. Most of the articles were sold under the private brand names of the store after the original tags were removed.

The executives of the store placed great emphasis on the liberal refund policy, and in an address to the stockholders the president explained: "For a store to sell private brand articles today and not to offer any of the services that customers normally expect to receive, it must have a very liberal return policy. As an example, a woman comes into the Swank Store and selects a new dress. She takes it to a dressmaker and asks her to alter it for her. The dressmaker informs her that it will be a major job to make the alterations and advises her to take the dress back. If we refuse to accept the dress, we will probably lose this lady permanently as our customer.

"We have to realize we are selling on a cash basis, and in order to develop and maintain the customer confidence we need to stay in business, and it is imperative that we have a very liberal return policy."

On the other hand, the controller felt that the store should change its policy so that formal gowns, hats, and other accessories could not be returned. He pointed out what had happened at the time of the Big Game for Apex University, located in the same city as the Swank Store.

During the week of the game, 95 formal dresses were sold. The following week 87 of these dresses were returned. The controller said it was rather obvious that the young ladies who had purchased these dresses wore them to the formal dance and then returned them.

Although the president recognized that there was abuse of the privilege of returning goods, it was his opinion that if the store ever changed its return policy, it would not be able to sell on a "self-service cash basis." He stated, "We have to have our customers develop the habit of shopping at Swank. Suppose these girls did return the formal gowns after wearing them to a dance. We have earned their good will and confidence, and when they are ready to purchase clothes again they are going to think of Swank."

QUESTIONS

1. How important is the principle of liberal returns to the Swank Store?
2. Would it be possible for such a store to select certain departments in which no returns would be allowed?
3. What methods might the Swank Store use to decrease the number of returns and allowances and still follow its present policy of merchandising?
4. Do you believe that other department stores would find it advantageous to adopt Swank's merchandising policies?

FIVE

Marketing institutions

Callan and Krover — 15

STARTING A RETAIL STORE

James Callan was a salesman for the Zenith Furniture Store, a high-grade home furnishings store in a large eastern city. Carl Krover, one of his friends, suggested that they form a partnership in a retail furniture store.

Mr. Callan was 30 years old, and had been employed by the Zenith store since his graduation from high school. While in high school he held several jobs in the retail field. Shortly after graduation he married one of his classmates. They had three children, two boys (ages 7 and 6) and a four-year-old daughter. During his 11 years with Zenith, he had progressed satisfactorily, and was considered one of the most

promising salesmen in the organization. He was paid a salary of $300 per month and a commission on sales. Last year he earned $6,450.

Mr. Krover received a college degree in chemistry in 1950. He first went to work as a salesman for a large chemical firm, but after three years, because he did not like to be away from home so much, he resigned to accept a position as a salesman with a large real-estate firm. This firm specialized in developing shopping centers. Mr. Krover was married and had one son, who was three years old. Upon the death of his father, he had inherited $50,000.

The firm for which Mr. Krover worked constructed all the buildings in a shopping center according to its architectural plans and then leased the stores to selected individuals. A few months before, the company had completed such a center in the suburban section of the city in which the Zenith store was located, and all the stores except one had been leased. This building was a one-story structure 130′ deep with a 70′ frontage. There were ample parking facilities behind the store, and an important city boulevard, on which city busses passed at regular intervals, served as the main street in the shopping area.

The downtown section of the city was about four miles away. In this section, there were six large furniture stores and five department stores that sold furniture. These firms were old established companies that had been in business from 35 to 90 years.

The real estate company wanted to lease the vacant building to someone who would open a furniture store, and had tried unsuccessfully to get one of the larger downtown stores to open a branch. Mr. Krover had worked on the project and was familiar with the terms of the lease, which he believed were very attractive. The lease provided for a minimum guarantee of $200 per month or 5 per cent of sales, whichever was greater.

Mr. Krover had always wanted to go into business for himself and had decided that if he could get someone who knew the furniture business to form a partnership with him, they should do well in this location. He approached the real estate company with his plan, and was given a period of 30 days to decide whether or not he would take the lease. Mr. Callan had sold him most of the furniture for his home, and he believed that Callan was the kind of person with whom he would like to become associated. He approached him, therefore, with the partnership offer.

Although Mr. Krover had no experience in the furniture business, he was well-known in the city and believed that he had the ability to learn the business in a relatively short period. Besides the $50,000 his father had left him, he had about $1,500 in government bonds. Mr. Callan owned his home but did not have any capital to invest in the partnership.

No other store in this shopping center sold furniture, appliances, floor coverings, or draperies. The real-estate company was willing to give Callan and Krover exclusive rights to handle these items because its policy was to have only one store of each kind (with the exception of food outlets) in its shopping areas.

Mr. Callan was enthusiastic about the partnership idea and immediately began investigating its possibilities. He told Mr. Krover that he believed they should specialize in high-grade home furnishings and attempt to build a reputation as "interior decorators." He stated that they might anticipate an inventory turnover about three times a year and suggested stock distribution as shown in Schedule I.

Schedule I

Planned Stock Distribution

	Per cent
Major furniture	50
Appliances	15
Draperies	15
Floor coverings	15
Miscellaneous items	5

The manager of the Zenith Furniture Store, in applying a "rule of thumb" principle, had told Mr. Callan that if the partnership was to do a $100,000 volume the first year, they would need about $50,000, two-thirds of which would be tied up in inventory and accounts receivable within a short period of time.

Both Mr. Krover and Mr. Callan believed that it would be easy for the partnership to sell at least $100,000 the first year, and because Mr. Krover was willing to put up the necessary capital at 4 per cent interest, they began to estimate what return they would get.

Mr. Callan went to the manager of the Zenith Furniture Store and secured permission to use the expense control budget which he had introduced successfully eight years before. This budget was set up on a percentage of sales basis.

Schedule II

Expense Control Budget

		Per cent
Sales		100
Cost of goods sold		60
Gross profit		40
Expenses:		
Occupancy (rent, heat, light and power)	7%	
Employees' wages	9	
Advertising	1	
Administration	10	
Bad debt losses	2	
Delivery	3	
Warehousing	4	36
Net profit		4

On the basis of the information in Schedule II, Mr. Callan and Mr. Krover prepared what they considered an adequate budget for the proposed first year of operation. A copy of their budget appears in Schedule III.

Schedule III

Planned budget for first year of operation

	Expenses percentage of sales	*Projected budget on basis of sales of $100,000*
Sales	100%	$100,000
Cost of goods sold	60	60,000
	40%	$ 40,000
Expenses:		
Lease	5%	$ 5,000
Heat, light, and power	1	1,000
Employees' wages	4	4,000
Advertising	1	1,000
Bad debt losses	1	1,000
Delivery	3	3,000
Warehousing	4	4,000
Administration	3	3,000
Salaries of partners	10	10,000
Interest on loan	2	2,000
	34%	$ 34,000
Net profit	6%	$ 6,000

Mr. Callan and Mr. Krover were pleased with the planned budget and envisioned a prosperous business. As Mr. Krover stated, "Even if our sales are no greater than $100,000, we will still each earn $5,000 salary and receive $3,000 as our share of profits. There is no reason why, during our first year, we cannot sell $200,000, which will double our profit."

In the meantime, Mr. Callan called on a number of furniture manufacturers and was assured that the partnership could secure a representative list of major brand furniture items. Several of the major appliance manufacturers were also willing to give the partnership limited franchises. There seemed to be no significant problems involved in buying an adequate stock of all the items which the store would need.

Mr. Krover and Mr. Callan decided that the area in which the store was located was a growing one. One thousand homes had been constructed in the past five years, and there was enough room for an additional 300 units. The families were relatively young and, in many instances, both the husband and wife worked.

Without attempting to secure any additional data, Mr. Callan and Mr. Krover decided to form a partnership and shortly thereafter opened their furniture store.

QUESTIONS

1. What additional data do you believe that Mr. Callan and Mr. Krover should have secured?
2. Do you believe that the experience which Mr. Callan had with the Zenith Furniture Store qualified him for entering into a partnership agreement with Mr. Krover?
3. Was the expense control budget which Mr. Krover and Mr. Callan made a satisfactory one? What are its weak points? Its strong points? How should the budget have been set up? Of what significance is such a budget?
4. Was Mr. Krover correct in saying that if the partnership doubled sales, they might expect to double profits?
5. What would be your recommendations to Callan and Krover?
6. Do you agree with Mr. Callan's recommendations to establish a high-grade home furnishings store in the shopping area?

Hoffman Carpet Company — 16

IMPORTANCE OF THE WHOLESALERS

The Hoffman Carpet Company was dissatisfied with the sales which its 50 wholesale distributors had secured, and it decided to review its method of distribution to determine whether or not it would be advisable to select other channels of distribution.

When the company was founded in 1890, its products were handled by an exclusive distribution agency in the East. Later the company engaged other distributors with exclusive territories in various parts of the country. In 1940, Hoffman established distribution through nonexclusive wholesalers and added a number of new distributors throughout the country.

The Hoffman Carpet Company is engaged principally in the business of manufacturing and selling wool pile rugs and carpets (known in the trade as "soft surface floor coverings"). It acts also as selling agent for wool pile rugs and carpets in plain and printed Velvet and Wilton weaves, and cotton rugs, manufactured by Hausler Rug Company, and buys and sells related products manufactured by others.

The products of the company consist of carpets and rugs in plain and printed Velvet and Axminster weaves, manufactured in standard widths ranging from 27 inches up to 18 feet. Although the company's rugs and carpets cover a wide price range, it manufactures primarily for the medium-price field.

The floor-covering industry is very competitive. The "Census of Manufacturers" showed about 50 establishments in the wool carpet and rug field, and about 20 manufacturers in the hard surface floor-covering field. Hoffman was considered one of the medium-size firms and recognized as a manufacturer of a high-quality rug within the medium-price range.

The executives of the Hoffman Company believed that the main function of the company was to manufacture a good-quality rug at a competing price. They felt that the distribution of their products should be left to specialists in sales. At the time the decision was made to use wholesalers, it was based on the following facts in the research committee report:

1. The Hoffman Carpet Company will have to expand greatly its organization and capital structure to utilize its production facilities if

it decides to distribute the products directly to furniture and department stores.

2. The wholesalers that can be secured are willing to provide storage space for the rugs. In addition, they will buy rugs and hold them until they are needed by local retailers. This will greatly reduce the amount of warehouse space needed.

3. The wholesalers will aid the company with its problems of finance. By buying and paying promptly for goods as they are produced, the wholesalers will lessen substantially the amount of capital required. Capital requirements will be much larger if Hoffman has to hold the goods until they are ordered by the retailers.

4. The wholesalers will undertake the task of sales and distribution for Hoffman on a national basis. This method will be more economical than any other. For Hoffman to sell direct to retailers will require the company to train and send into the field a large staff of salesmen, many of whom will not even know the prospective customers. The wholesalers who have agreed to handle Hoffman rugs are old friends of the retailers on whom they call. The retailers have learned to trust these salesmen and are likely to be more receptive to their recommendations than to those of Hoffman salesmen.

5. The distributors will be able to keep Hoffman advised on market conditions, the nature of the goods that can most readily be sold in the market, the types of patterns that consumers seem to prefer, and the price range that makes the greatest appeal.

6. The handling cost will also be lowered substantially by distributing through wholesalers. When distributing in this manner, Hoffman will be able to load full cars and ship them on. If Hoffman sells to retailers direct, it will be necessary to employ a much larger warehouse force to fill the multitude of small orders which, of necessity, will come from retailers. By ordering rugs in car lots, the wholesalers will not only lower the distribution costs of Hoffman, but will also contribute to lower costs to retailers.

7. Lastly, going through wholesalers will simplify Hoffman's credit problem. If the company sells direct to retailers, it will be necessary to keep a check on retail accounts scattered throughout the United States. Although it is true that Hoffman will have to check the credit standing of the wholesaler, the number involved will never be very great.

The shortage of production and the high demands for floor-covering products during the war period made it impractical for the company

to set up its own distribution program. With the end of the war, one of the largest carpet companies set up its own warehouse facilities and sales offices in various strategic locations throughout the country to take over the selling activities previously conducted by wholesale distributors.

The Hoffman officials felt that the decision of the large manufacturer to adopt a direct method of selling to retailers would open up new wholesale accounts to Hoffman. It was also their opinion that all the wholesalers would push the Hoffman brand more because of the fear that Hoffman might also decide to sell direct.

As a result, Hoffman dropped the idea of selling direct and concentrated on building up and establishing stronger wholesaler contacts. The sales results had not been as satisfactory as the company had hoped, and by 1959, at the time the company was reviewing its distribution policy, the sales volume had not shown any increase since 1951.

The carpet industry had conducted a very aggressive merchandising job since 1945. It was questionable in the minds of the Hoffman officials whether or not the wholesalers had the kind of sales forces that could meet the competition of the salesmen of manufacturers selling direct.

Hoffman carried on a national advertising program, and the styling of their rugs was as satisfactory as any others of medium-price. The quality was good, and the prices were on a competitive basis.

The wholesalers sold Hoffman's products to furniture and department stores, mail order houses, and contractors of theater and hotel supplies and home furnishings. In 1959, the proportions of sales through these outlets were as follows:

	Per cent
Furniture and department stores	82.4
Mail order houses and contractors	17.6
Total	100.0

QUESTIONS

1. Why do you believe that Hoffman's sales have not increased since 1951?
2. Is it possible for a wholesaler who sells a number of other related products to do a satisfactory merchandising job with rugs and carpets?

3. How important should the decision of a large manufacturer to shift to direct distribution be to the Hoffman Company?
4. What channels of distribution would you recommend for the Hoffman Carpet Company?

L. Jackson and Son Department Store — 17

ADVISABILITY OF ESTABLISHING A BRANCH STORE

L. Jackson and Son Company, Inc., the outgrowth of a store established in 1889, operates one of the two largest department stores in a western city. The store carries a broad line of merchandise of a medium and higher price class and had a sales volume of about $6,250,000 last year. The store, which has been remodeled throughout, occupies a half block in the downtown shopping district, and serves a metropolitan population estimated at over 500,000 persons. The company also operates a parking lot, which is about a block from the store.

The company carries the classes of merchandise usually handled by large department stores. The principal lines in order of their volume of sales are women's, children's, and infants' wearing apparel; home furnishings; small wares and accessories (including cosmetics, jewelry, stationery, and leather goods); men's wear; and piece goods. Profit margins vary, of course, among the different types of merchandise as well as otherwise. The company's business is conducted under highly competitive conditions, there being another large department store and numerous other shops located in the downtown and other shopping districts of the city.

Merchandise is purchased under competitive conditions in the principal markets of the United States and several foreign countries. In order to assure, as far as possible, stocks of merchandise to meet anticipated needs of customers, the aggregate of the company's inventories and merchandise commitments are somewhat higher than they would normally be.

The company, together with approximately 200 other leading department stores, is affiliated with a leading buying group, which has buying offices in Los Angeles and New York. This organization is engaged in many activities connected with retailing, among them the

actual buying of merchandise on behalf of itself and its affiliates, the furnishing of statistical information with respect to their operations, the furnishing of general information and expert advice arising out of research into substantially all phases of the department store business, and the providing of extensive marketing service and information covering the major markets of the world.

The company has approximately 350 regular employees, and its employee relations have been generally satisfactory over a long period of time. Medical care and sick leave payments are provided by the company for all its regular employees.

In April, 1959, the executives of the Wilton Company, one of the country's largest chain stores, announced that they planned to establish a $6,000,000 branch store on a site in a new suburban shopping area about three miles from Jackson's store. The Development Company that had sold the property to Wilton tried to interest Jackson's in opening a branch store in this same area, and offered the company the opportunity of taking an option on a satisfactory site next to Wilton's.

The company was hesitant about opening a branch store so close to its main store. It believed that the branch would probably draw too many of the regular customers away from the downtown shopping area. The branch would have better parking facilities and, because it was located in a new shopping area with Wilton's, would have a strong appeal to many of the regular customers.

Mr. Jackson was of the opinion that if he continued an aggressive merchandising program, he could continue to increase sales volume in his present location and maintain his position in the market. He believed that having two stores in such close proximity would not appreciably increase sales.

The Development Company indicated in the discussion with Mr. Jackson that several other large department stores were considering opening branch stores in the same area with Wilton's. If Mr. Jackson did not open a branch now, it would be very difficult to get an adequate site in the area at a later date.

Mr. Jackson and the other executives realized that this would probably be the only major shopping area that would be established within a ten-mile radius during the next 10 years.

L. Jackson and Son's report to the stockholders, which included the yearly Profit and Loss Statement and the Balance Sheet, is given in Exhibits I, II, III, and IV.

Exhibit I

L. Jackson and Son Co., Inc.

March 26, 1959

TO THE STOCKHOLDERS
OF L. JACKSON AND SON CO., INC.

We submit herewith our annual report for the fiscal year ended January 31, 1959, including Balance Sheet and Statement of Income and Expense, which has been prepared by our Certified Public Accountants.

We are pleased to point out that we had more than a half million dollar increase in sales last year. This was due to many improvements in operating procedures and more aggressive merchandising program. The number of new customers of our store has increased most satisfactorily.

The refixturing program has progressed satisfactorily; the first floor installation should be finished before Easter. We will then immediately begin the improvements planned for the downstairs and third floors.

If we can continue with our present merchandising program and improvements in operating methods, we feel we will be able to show increases in sales again for the coming year, unless economic conditions change.

Your Board of Directors voted a dividend payable March 28th and your check is enclosed. Be assured that the question of dividends will be a matter of serious consideration each quarter. We greatly appreciate your cooperation.

Most sincerely,

L. B. JACKSON
President

Exhibit II

Balance sheet
L. Jackson and Son Co., Inc.
January 31, 1959

ASSETS		
Current assets:		
Cash on hand and on deposit		$ 60,850.00
United States Government bonds—at cost		15,000.00
Accounts receivable—trade:		
Current	$ 490,000.00	
Installment	250,000.00	740,000.00
Merchandise inventory		900,000.00
Total current assets		$1,715,850.00
Property and other assets		425,000.00
		$2,140,850.00
LIABILITIES		
Current liabilities:		
Accounts payable	425,000.00	
Notes payable	90,000.00	$ 515,000.00

Federal taxes in income	95,000.00
Total current liabilities	$ 610,000.00
Bonds outstanding	50,000.00
Capital	
Capital stock and surplus	1,480,850.00
	$2,140,850.00

Exhibit III

Statement of profit and loss and retained earnings
L. Jackson and Son Co., Inc.
Year ended January 31, 1959

Net sales		$6,250,000.00
Cost of goods sold	$4,250,000.00	
Expenses	1,810,000.00	6,060,000.00
		$ 190,000.00
Other income		60,000.00
Profit before federal taxes		$ 250,000.00
Federal taxes on income (estimated)		95,000.00
Net profit		$ 155,000.00
Retained earnings at Jan. 31, 1958		700,000.00
		$ 855,000.00
Less dividends		50,000.00
Retained earnings at Jan. 31, 1959		$ 805,000.00

Note A: Merchandise inventories in the amount of $800,000 are stated at cost (last-in, first-out basis); other inventories (except goods in transit) are priced at the lower of cost or market as determined by the retail method of accounting (first-in, first-out basis). Goods in transit are stated at cost.

Note B: Loan agreement permits borrowing up to $300,000 for store improvements. Unrecorded commitments for such work totaled $95,000.00 approximately at January 31, 1959. Under the loan agreement the Company among other things agrees (1) to maintain working capital of at least $850,000 and (2) a current ratio of at least two to one; (3) not to pay dividends in cash or property in excess of earnings after January 31, 1952 and a cash dividend of $35,000 in the year ended January 31, 1959; (4) not to make additional investments in capital assets exceeding $50,000 in any year; and (5) not to make additional borrowings except on a short-term basis. Loans are repayable $15,000 quarterly beginning June 30, 1953, interest at 4½%.

Note C: Secured by deed of trust on warehouse land and building.

Exhibit IV

Accountants' report

We have examined the balance sheet of L. Jackson and Son Co., Inc. as of January 31, 1959, and the related statement of profit and loss and retained earnings for the year then ended. Our examination was made in accordance with

generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the accompanying balance sheet and statement of profit and loss and retained earnings present fairly the financial position of L. JACKSON AND SON CO., INC., at January 31, 1959, and the results of its operations for the year then ended, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

DOE AND SMITH
Certified Public Accountants

March 21, 1959

QUESTIONS

1. Do you believe Mr. Jackson could continue to maintain his volume of business at his present location?
2. What effect would the location of a branch store next to Wilton's have on the sales at the downtown store? Is Mr. Jackson's comment that his customers would divide their purchases between the stores valid?
3. How important is it to Mr. Jackson in making his decision that some other department store would take the location if he decides against it?
4. How can the downtown stores meet the competition of the chain stores that are building department stores in the outlying shopping areas?
5. Should Mr. Jackson establish a branch store so close to his main store? Why or why not?

The Tabor Electrical Company — 18

DECIDING UPON THE USE OF MANUFACTURERS' AGENTS

In 1958, after making electronic components under license from the Bell Telephone Laboratories for several years, the Tabor Electrical Company developed some new devices on which it was able to obtain basic patents. Under its license agreements, the company had manufactured diodes and transistors and in addition, had installed, on a custom basis, electronic controls on some types of military planes. In 1958, its volume of custom contract work amounted to $13,500,000 and its volume of manufactured electronic components was $1,750,000.

Because it had experienced considerable difficulty in manufacturing diodes and transistors that would remain electrically stable, the company undertook the research which led to the development of a new, and it believed, superior form of transistor, and to the development of a new form of coupling to be used in electronic hookups. Because the usual diodes and transistors were all made under licensing agreements permitting the use of the Bell Telephone Laboratory's basic patents, there had been very little opportunity for Tabor to develop a market for its own diodes and transistors. Its products had been used in its own contract work and had been sold to other firms when there was a scarcity of electronic equipment. Because of low margins on outside sales, the company had not tried to build a sales force.

With new equipment on which they held basic patents, the Tabor Electrical Company executives believed that they could exploit the points of differentiation of their products, and develop a permanent market based on preference for their products.

Through the year 1950, virtually all electronic equipment of the general type manufactured by Tabor had been used under military contracts. After 1950, there was a steady increase of research in the use of electronic components for peace-time applications. International Business Machine Company, National Cash Register Company, and General Electric Company had developed computing machines and other office applications of electronics. Various other firms were working on manufacturing applications which would make various types of repetitive manufacturing subject almost entirely to electronic control.

Because these new developments were in such nebulous stages, it was impossible for the executives to foresee where the most promising markets would develop. They believed that contract work on military airplanes would gradually taper off and assumed that the first market for Tabor's new equipment would be the aviation industry; however, other, considerably larger markets might arise. Until the successful application of patents for the new equipment had introduced the need for attention to marketing, the company did not have a sales force. The president, Mr. F. W. Smythe, had handled all of the negotiations with plane manufacturers.

When the executives considered establishing a more formal marketing organization, the vice president, Mr. John Bolton, who was in charge of manufacturing and who had been responsible for the research which developed the new devices, urged that several of his development engineers be assigned the sales function. He argued that

these engineers had a degree of technical knowledge that would allow them to combine service with sales in offering the new equipment to military plane manufacturers, and that they would be better able than any other group to discuss new electronic applications with firms outside of the aviation industry.

After considering the location of the firms now using electronic equipment, it was decided that sales representation was necessary in nine locations: Seattle, Washington; Portland, Oregon; Southern California; Wichita, Kansas; Ohio (to include Cleveland, Dayton, and Cincinnati); Chicago; Philadelphia and Baltimore; New York City; and Northern New York and New England. There was considerable doubt that the company could spare nine electronic engineers, and there was some question as to the profitability of using high-priced men such as these for sales work. The engineers' salaries ranged from $9,000 to $15,000 a year, the average being $12,000. It was estimated that the cost of even a small office with one stenographer, plus traveling expenses, would about equal the salaries paid the engineers. The field expense under this setup would amount to about $200,000.

Although the company had been manufacturing $1,750,000 of such equipment in the past, not more than $400,000 had been in outside sales in any one year. It was believed that the engineers could not greatly increase this figure for the first year.

If the company hired salesmen instead of using its own highly paid engineers, the salesmen would have to be given sufficient training in electronic applications to make them more than mere order-takers.

Rather than attempting to build up a sales force of any kind, Mr. Smythe favored the use of manufacturers' agents. Investigation showed that there were a number of well-regarded manufacturers' agents who specialized in the field of electronic equipment. These firms represented a number of different but noncompeting manufacturers. They did not carry inventory or take title to the merchandise they sold. They were able to cultivate territories intensively because they made frequent sales calls on manufacturers or on distributors.

In the electronics field, several manufacturers' agents maintained sales forces of from five to 15 men who had come to know a great deal about electronic applications. In addition, several of the larger firms maintained technically trained electronic engineers to back up their salesmen. Manufacturers' agents in general charged a commission ranging from 5 per cent up to 25 per cent of net sales, but in the electronics field, 10 per cent had come to be a reasonably fre-

quent commission. The manufacturers' agents ordinarily represented from five to 12 or 15 manufacturers, depending on the length of the lines. Although it was possible to do business with these agent-firms without a long-term contract, the fact that many of them invested considerable sums in doing missionary sales work in introducing products made them reluctant to accept new lines without some understanding as to permanency and territorial protection.

Mr. Smythe believed that entering into contracts with manufacturers' agents in the areas in which they needed coverage would give the company access to markets at a reasonable sales cost. Mr. Bolton held that the manufacturers' agents, although offering a reasonable ratio of sales cost, might not be able to develop new markets as they arose.

QUESTIONS

1. Should the Tabor Electric Company use manufacturers' agents to distribute its electronic equipment?
2. If the agents are used, should exclusive territorial contracts be signed with them?
3. How essential is it to have trained engineers to sell this equipment? Do you believe it would be possible to train men without an engineering background to sell equipment of this kind?
4. Would the commission of 10 per cent paid to the manufacturers' agents be adequate to cover the cost of establishing sales representation in the nine locations listed?
5. What would be the difference between the kind of sales effort that Tabor might expect from the manufacturers' agents and that of its own sales force?

Bishop Appliance Store 61 —

COMPETITION WITH THE DISCOUNT HOUSES

Carl Bishop operated an appliance store in New York City and had, over a period of 16 years, built up a business of about $750,000 in sales per year. In 1958, Bishop's sales dropped to $625,000 and in 1959 the sales fell to $578,000.

When the sales decreased in 1958, Mr. Bishop immediately began a thorough check on the reasons for the drop. He installed model rooms for kitchen and laundry equipment and set up a training program for his sales force to combat price competition. Because of the services he offered he felt that it was not essential to emphasize price, so in his advertising he placed his appeal on quality. He had his accounting department study costs to determine if it would be possible to make a profit on a lower markup basis.

In order to get carload rates on purchases, he joined with three other dealers in New York City, and the four placed orders jointly on three different occasions to qualify for lower prices. He began to keep a record of every person who visited his store to determine if the traffic had decreased and also to find out what the ratio of calls to actual sales was.

Mr. Bishop was a member of the National Appliance and Radio-TV Dealers Association, and had followed a policy of applying a gross margin of 32 per cent on major appliances. His cost of business in 1951 had been 28.2 per cent, which had left him a net operating profit of 3.8 per cent. However, with the decreased sales in 1958, he earned a net operating profit of 0.4 per cent and in 1953, he ended up with a net operating loss of 3.2 per cent.

In December, 1959, Mr. Bishop checked his records and discovered that the ratio of customers calling at the store to the number of sales had increased in 1959 to "10 to 1," as compared to "8 to 1" in 1958. During February, Mr. Bishop and his salesmen questioned the people who came to the store and found that many of them were only looking at the appliances with no intention of buying. Some indicated that they were in a position to get a sizeable discount from other distributors but wanted to check the different makes of appliances before placing their orders.

When electrical appliances first came into the market, they were not called "traffic" items because they were not sold on impulse to the passing traffic. Salesmen had to demonstrate them and show that the appliances would do the jobs the advertisers claimed. The department store, the hardware store, and the electrical appliance store were called upon to do the selling job.

When customers became convinced that the appliances would do a very efficient and economical job in their homes, it was no longer as essential to do the same kind of merchandising. In many instances, displays alone produced satisfactory results. Variety stores, drug stores,

supermarkets, auto stores, and so on began to offer appliances, and personal salesmanship decreased. However, despite a change in the kind of merchandising necessary in the appliance industry, the compensation system for distributors and retailers remained essentially the same.

Mr. Bishop had his salesmen follow up on where the people who called at his store purchased appliances. They reported that a high percentage bought from the discount houses in New York City.

These discount houses had sprung up largely because of the pricing program in the appliance field. When the merchandise is presold and the customer knows exactly what she wants, it is possible for an outlet, such as a discount house, to sell the appliance at a markup of 16 per cent and still make a profit. Some of the regular dealers cannot make as much profit on a 32 per cent markup because of the many services they must offer.

As Mr. Bishop continued to investigate this trend and the future potential of his business, he found that more and more of the public were willing to buy known brands of merchandise through the discount houses because they were interested only in price.

The consensus among a group of appliance dealers in New York was that some change in the trade pricing structure would have to be made to meet this competition. Mr. Bishop shared this belief and advocated that the factories start selling both small and major appliances direct to the retailers.

At a meeting of appliance dealers, he stated, "Advertising has done a very effective job of selling the appliance before the customer even comes to our stores. Our customers are *buying* and are not being *sold* by our salesmen. The customer wants to know three things: What price will I have to pay? What will you allow me on my used appliance? How much will my monthly payments be? The customer is no longer interested in finding out how one brand is superior to another. She knows that if it is manufactured by General Electric, Westinghouse, or Philco she is getting a quality product. If she can get a better deal on another well-known brand, she will substitute that brand for the one about which she inquired. If we are going to hold our share of the market we must buy direct from the manufacturer and cut out many of the services we are now giving. We should take a page from the supermarkets' history, and determine which of their techniques we might profitably adopt."

QUESTIONS

1. Do you agree with a statement made by a leading retailing editor, "Many responsible appliance industry spokesmen fear that the discount house of today may become the major source of retail distribution of all electric housewares tomorrow?"
2. Should Westinghouse, General Electric, and other manufacturers plan to sell direct to retailers? What would be some of the major problems which these firms would face if they circumvented the middlemen?
3. How important is the salesman today in selling an appliance to the customer?
4. Do you believe the development taking place in the appliance industry will have any serious implications in distribution policies for manufacturers and distributors in other fields? If so, which fields do you feel will be affected first?
5. What plan of action would you recommend that Mr. Bishop follow?
6. Which of the supermarkets' techniques do you believe Mr. Bishop might profitably adopt?
7. What effect will television advertising have on the kind of merchandising that appliance dealers will have to do in the future?

Green Wholesale Grocery Company — 20

ANALYZING THE SERVICES OF A VOLUNTARY CHAIN

The Green Wholesale Grocery Company was faced with the problem of a decrease in sales per salesman and a lower profit margin. The volume of sales per salesman decreased from $260,000 per year to $175,000 per year in the past five years.

The company, founded in 1938 by Mr. John Green as a wholesale grocery business, sold foods and other wholesale grocery items to retail grocers and institutions in Southern Illinois. Mr. Green had been the sales manager for the Superior Wholesale Grocery Company for 15 years. This company had one of its main warehouses in Illinois, and Mr. Green had become acquainted with many of the retailers in the area before starting his own business.

In 1941, after failing to make a profit during his first three years of operations, Mr. Green formed a voluntary chain among his customers and agreed to furnish advertising, accounting, and merchandising serv-

ices and advice. Besides the general line of wholesale grocery items and staples that he planned to continue to sell, Mr. Green decided to distribute quality canned, processed, and packaged foods under the private brand name, "Green Top."

When forming the voluntary chain, Mr. Green stated that he would maintain a satisfactory quality for his private brand and through large volume buying would be able to secure adequate quantity discounts. As a result, the majority of the retail stores in the group, known as Green Top stores, agreed to make 75 per cent of their purchases through the Green Company.

Because of his former experience as sales manager of the Superior Company, Mr. Green believed it was essential to have an aggressive sales force if a voluntary chain were to succeed. When he organized the group in 1941, he had five salesmen in his company. He immediately hired two additional men and gave the following reason: "A voluntary chain not only has to meet the price competition of other wholesalers but it also has to offer superior merchandising services. The average retailer is too busy and his hours are too long for him to keep abreast of the latest merchandising developments. I need enough salesmen so that they will be able to advise and to help each member with all his merchandising problems."

Sales of the company increased from 1941 to last year, and by the volume was $3,150,000. Profit margin that year declined to 0.15 per cent, as compared to 1.4 per cent 5 years ago when the sales were $2,600,000.

Mr. Green had 10 salesmen on the sales staff 5 years ago but decided that he needed a larger staff if the men were to be more than mere *order takers.* After surveying the market, he concluded that there should 20 salesmen on the sales staff in 5 years. To attain this number he planned to hire two men each year.

When Mr. Green and the treasurer reviewed the financial position the company had 18 salesmen. All of them had been with the company at least one or more years, and only two of them did not have sales experience in the grocery wholesale field before accepting a position with the Green Company.

The treasurer believed that it was not necessary to have so many salesmen and attributed the declining profit margin to the high selling costs. In analyzing the expenses, he pointed out that the operating costs of the company had increased from 10.5 per cent to 12.1 per cent in 5 years. Administrative, shopping, warehouse, and occupancy

costs accounted for only 0.3 per cent of the increase, whereas the jump in selling expenses amounted to 1.3 per cent.

With these facts to back up his argument, the treasurer told Mr. Green that he should decrease the number of salesmen. Because the Green Wholesale Grocery Company was a voluntary chain, he felt it was not necessary to have as many as a regular wholesaler. Furthermore, two large chain organizations had increased the number of stores in the state, and it was more imperative than ever to cut out unnecessary expenditures so that any additional savings might be passed on to the members of the group.

Mr. Green did not agree with the treasurer. He believed that it was necessary to keep all the salesmen. With fewer salesmen the company would not be able to keep in close contact with the retail stores. About all the salesmen would have time to do would be to serve as special missionary salesmen and merchandisers.

QUESTIONS

1. Should Mr. Green decrease the number of salesmen?
2. Recognizing the basic principles under which a voluntary chain operates, do you believe it is possible for such a chain to function without the use of salesmen?
3. What services should a voluntary chain of this kind offer to its members?
4. Do you believe the number of voluntary chains of this nature will increase or decrease in the future?

Danta Consumers' Cooperative — 21

ANALYZING A COOPERATIVE STORE

The Danta Consumers' Cooperative operates a one-stop shopping center serving the Danta trading area. This is a market area of about 150,000 population. At present the Cooperative is considering plans to open a second shopping center to gain the benefits of increased volume and purchasing power and to serve its clientele in the area to the north of its current store.

Among the major problems in the operation of the Cooperative have been holding its members and getting them to buy most of their products from the Cooperative. The Cooperative had used newspapers extensively in its promotion program; however, because of the limited clientele of the Cooperative store, it recognized that there was a great amount of waste circulation in the use of newspapers.

Early in 1940, a group of interested persons started a cooperative in Danta with these objectives in mind: (1) economies in buying and selling and (2) the ownership and control of their own facilities. Articles of Incorporation were signed and the Danta Consumers' Cooperative was opened for business on June 1, 1940. The members elected to operate under the principles developed in the Rochdale Cooperative in England, which are as follows:

1. Open membership, regardless of race, creed, or position.
2. Limitation of one vote to a member, regardless of the number of shares he owns.
3. Payment of interest only on proprietarial share capital.
4. Sale for cash only, at competitive market prices, with no credit offered.
5. Return of all income or margin above expenses of operation and maintenance of necessary reserves to *members* in patronage dividends.

From a sales volume of $5,000 in 1940, sales increased to about $1,500,000 in 1959, with a corresponding increase in membership from 25 to 2,500. The Cooperative operates a supermarket, a laundry and dry cleaning service, and a gasoline service station. The enterprises operated by the Cooperative are determined by the members; the Cooperative is guided in its decision by the considerations of whether a proposed service will meet an existing need of the membership and whether it will provide potential operating income. In order to serve its members more adequately, the Society enters into purchasing agreements with local firms that offer desired services in addition to those owned and operated by the Cooperative. The members receive patronage refunds on purchases from these firms in the same manner as they do on purchases made at their own enterprises.

The Cooperative is financed largely by the capital of member-owner-patrons. An applicant for membership, after being approved by the Board of Directors, purchases one membership, voting, "A" share for $20. In addition, each member is expected, eventually, to buy 10 "B" or ownership shares at $15 per share. After a member owns his equity of 10 "B" shares, he may invest in "C" or preferred shares,

which earn 4½ per cent annually. Members save sales tags and cash register receipts as a record of their patronage; on the basis of the Cooperative's annual earnings, a patronage refund rate and "B" share dividend rate are established by the Board of Directors. These rates are applied to the member's total annual purchases and shareholdings respectively, and the resulting amounts are returned to him in cash if he holds his full ownership investment or accrue to his account as additional "B" shares if he does not yet hold 10 "B" shares.

In addition to competitive market prices and patronage refunds, the Cooperative also offers these free services:

1. A Bulletin Board Swap Shop to provide members with a place to exchange buy-and-sell opportunities.
2. A monthly house organ, *The Co-Op News,* keeps member-owners informed so that they can effectively direct and control the Cooperative.
3. Group subscription rates for *Consumer Reports* are provided at a saving of $1.50 per year, and a file of back issues is maintained for reference.

The Danta Cooperative, besides offering services and economies to its members and to the public at large, seeks to make members of as many of its public users as wish to belong and to assume membership responsibilities; it depends on present member loyalty both to serve and to build.

In evaluating the proposed location for a second store, members of the Cooperative were handicapped (1) by a lack of knowledge as to just which factors deserved the most weight, and (2) the very nature of the growing market area, which was disorganized in pattern.

The Cooperative has a nucleus of present members living in the market area of the proposed location. The directors of the Cooperative recognized that, before opening a second store, it would be necessary to stimulate interest in a store of this type. Such enthusiastic interest would lead to an increase of membership necessary to support the new store. There was a problem in reaching potentially interested consumers. The 100 current members in the area were reached by the Cooperative's house organ. However, for direct sale advertising they were only partially covered through the shopping sections of the local Danta Newspaper, because 80 of these families did not subscribe to a Danta paper, but subscribed to a neighborhood newspaper in this area.

QUESTIONS

1. What are the important factors that must be considered in starting a consumer cooperative store?
2. What appeal or combination of appeals should a cooperative use to build membership and sales?
3. In what way might the advertising objectives of a cooperative differ from those of an independent store?
4. Are there any special conditions, such as classes of people, income distribution, and size of market area, that will aid in the development of a cooperative store?
5. How important are cooperative stores of this nature in the United States?
6. What approach should Danta use if it decided to open a second store?

Canute Company, Inc. — 22

DECIDING ON USE OF A SALES AGENT

Canute Company, Inc., is located in Montreal, Canada. It rebuilds television picture tubes and sells them in the Canadian market.

The history of the Company dates from 1953 when Mr. Canute, an electrical engineer who had worked previously with neon and glass tubing, began to experiment with rebuilding a television picture tube in his small plant. At that time, a 16-inch, new picture tube sold to a distributor for $25. Mr. Canute found that the cost of material to rebuild a tube was $3.50, which included the cost of the three main parts: the "gun" that produces and focuses the electrons on the screen, the phosphorus and lacquer screen, and the neck and base.

Mr. Canute believed that if he could obtain discarded television tube glass (known as "duds") in sufficient quantity, he could produce a tube and sell it to the distributor for between $12 and $15, or, 40 per cent under the price of the so-called new national brand tubes.

The process of rebuilding a tube is fairly simple if clean chemical procedures are followed in the washing, cleaning, and rescreening steps. The old tubes are cut off at the neck, at least two inches from the bulb-neck joint, and a new neck and gun installed after the screening, aluminization and internal lacquering processes are completed. The final step, the evacuation and the internal heating of the

elements by high frequency radio, is the most complicated mechanical part of the process. The major maintenance operation in the plant is on these high vacuum pumps and the high-frequency heating generators.

Mr. Canute began to rebuild the tubes, and, with one employee in the plant, he was able to produce eight tubes a day. After hiring three additional men and adding more machinery, he was able to turn out 50 tubes a day at the end of a six-month period. One of the most crucial phases of the rebuilt tube business is getting sufficient "duds" to insure continuous manufacturing. Mr. Canute, therefore, worked out agreements with various distributors so that they would save old tubes for which he agreed to pay from $1.50 to $8.00, depending upon the size of the unit.

Mr. Canute handled all sales personally. He called on distributors and large retailers and appointed jobbers to cover the smaller accounts. However, he did not follow any specific policy in appointing distributors and, as a result, a number of conflicts developed. Several large distributors stopped handling Canute's tubes. In the meantime, the capacity of the plant had been increased to a scope of 100 tubes a day. To solve the distribution problem, the Canute Company asked advice from the Smith Sales Agency, a company that had been in the electronic distributing business for 15 years. In analyzing Canute's distribution problem, Smith advised the company to sell only through electronic distributors. It was his opinion that direct dealer sales were too expensive.

He recommended that Canute should try to get the best total area coverage with the fewest number of outlets. He believed that exclusive distributors should be established in the following cities: Hamilton, Montreal, Ottawa, Toronto, Winnipeg, and Windsor. Other exclusive dealerships would be added as production increased.

In regard to the price, Mr. Smith believed that the rebuilt tube should be priced at 20 per cent to 25 per cent below the national brands, which would still provide a moderate profit for the factory.

The Smith Sales Agency indicated that it would like to take over the complete sales function for the Canute Company. In the study Smith had made, it was shown that the replacement demand for tubes in the area in which he recommended that the Canute Company should sell was 35,000 units per year. In certain sections of the United States, rebuilts enjoyed over 60 per cent of the replacement television picture tube market.

QUESTIONS

1. What are the functions of a sales agent such as the Smith Company?
2. Give the advantages and disadvantages if Canute should select the Smith Sales Agency.
3. Evaluate the recommendations on exclusive distributorships which Smith recommended.
4. Should Canute Company appoint Smith as its sales agent?

The Valley Construction Materials Company — 23

PLANNING A RETAIL OPERATION

At the beginning of the present year, the executives of the Valley Construction Materials Company considered closing a branch in Huberville, Pennsylvania. The company had long been identified with the construction industry and had specialized in selling to industrial firms and large contractors through a chain of lumber yards located in major eastern cities. The company had never made an attempt to develop retail business and had operated from warehouses located near industrial centers where rail and truck transportation was convenient.

The various yards of the company regularly stocked standard sizes of lumber, roofing materials, standard construction hardware, cement, and paint. In addition, the company obtained special orders for customers whose volume of business justified extra service. Typically, business was obtained by a force of salesmen who traveled throughout the eastern states. Few customers visited the company's warehouses. The industry was a highly competitive one, so that price advantage was difficult to maintain. Therefore, the Valley Construction Materials Company made every effort to meet the needs of customers with respect to delivery dates, quality of merchandise, and credit terms. In addition, the company had a small research staff whose suggestions on construction methods and materials were passed on to customers by the salesmen.

Ten years ago, when several large government contracts were given to small manufacturing establishments in Huberville, a major construction boom started because the several manufacturing plants located there had to enlarge their plants. Several thousand workers had to be at-

tracted to the area, and thus, a residential development of 2,500 dwellings was undertaken. The Valley Construction Materials Company established a branch in Huberville in order to give better service to several contractors in the area who had substantial construction contracts. For the first 3 years, the Huberville branch was highly profitable. But during the latter part of the third year, most of the planned construction was completed, and during the fourth year, the branch operated at a loss.

The Huberville branch had been housed in a temporary structure on rented land. The owner of the land was willing to build a suitable structure for permanent occupancy for a cash payment of $10,000 and a percentage lease, starting with 2 per cent of sales and rising by ½ per cent over three-year intervals to a top of 4 per cent of sales. Huberville's economic development seemed to be permanent, and it seemed likely that there would be a steady, if slow, population increase for a number of years. By January 1, Huberville had a population of nearly 25,000. Retail facilities had not yet expanded to supply adequate shopping service to the community. There was one small hardware store and a lumber yard that carried some hardware items.

Executives of Valley Construction Materials Company could not foresee any major construction activity, but realized that there would be steady residential construction until housing for the expanded work force was adequate. Moreover, they had been cognizant of an increasing tendency on the part of householders to undertake residential repairs and remodelling for themselves. The manager of the Huberville branch proposed that the branch be continued but modified to carry a full line of home tools, home workshop power tools, paints, and a skeleton inventory of lumber and roofing materials. He believed that the branch, if thus modified, could account for a sales volume of from $75,000 to $100,000 a year, and that it could slowly reach out to attract some part of the business of neighboring farm families. The executives of the company were interested in the suggestion not only as a source of profits but as a pilot experiment for further company expansion.

QUESTIONS

1. Was the population of Huberville adequate to support the kind of store recommended by the branch manager?

2. Would this location be a good one for the pilot experiment recommended?
3. How important is the "do-it-yourself" market to stores of this nature?
4. What action would you recommend that the Valley Construction Company take in regard to its Huberville location?

James Roberti Dry Goods Company — 24

DECIDING ON CENTRAL MERCHANDISING

In the summer of 1959, Mr. James Roberti, proprietor of the James Roberti Dry Goods Company of Columbus, Georgia, was offered an opportunity to participate in the central merchandising of a chain of medium-priced department stores. This chain was attempting to increase the volume of its purchases by allowing stores in areas in which it was not represented to take advantage of its buying and merchandising facilities.

The James Roberti Dry Goods Company had been established in Columbus for many years. It sold women's ready-to-wear clothing, children's and infants' clothing, yard goods, blankets, and similar soft lines. It had an annual volume of sales of $500,000. Many of the staple items of stock were bought from wholesale houses in minimum quantities, and reordered by telegraph, so that surplus stock and markdowns did not become a problem.

The fashion items of apparel, however, had long constituted a problem. They were purchased in the New York market, where the store was affiliated with one of the buying offices. At the beginning of the season for a particular line of garments, the store's buyer would travel to New York. Although she was privileged to shop anywhere, the buying office would supply a list of the dress or suit or coat houses it believed offered the most suitable merchandise at that time. If the buyer chose to follow this list, she would visit somewhere between ten and fifteen manufacturers, seeing their several offerings modeled and explained by salesmen. Then, on the basis of her impressions, she would place her order for the season. Because the cutting tickets of the manufacturers were often determined by the orders placed by buyers, it was rarely possible to reorder, unless a

particular model became so popular that many retailers wanted it again.

Therefore, at the time she placed her season's order, the buyer had to forecast her requirements for the entire season, both as to assortment of models and as to distribution of sizes. The difficulty of making accurate forecasts was so great that there were usually shortages of some models, with a resulting loss of business, and unsold inventories of others, which had to be sold at substantial reductions.

Under the central merchandising plan offered by the chain of department stores, it was expected that markdowns would be minimized. At the start of the contractual relationship, analysts from the chain, in cooperation with the merchandise manager of James Roberti Dry Goods Company and with the various buyers concerned, would develop a model stock plan. This model stock plan would detail the assortment of sizes by price lines for each apparel group and would determine the expected rate of sale.

On the basis of this model stock plan, at the beginning of the season for each group of garments, the central merchandising department of the chain would send the store skeleton inventories. During the early weeks of the season, the store was expected to report sales by model and by size telegraphically each day. Getting such telegraphic reports daily from a group of stores scattered geographically enables the central merchandising department to determine early which models were proving most popular; then without specific orders from the store, it would ship replacement stocks made up of those models that were selling best. Because it was dealing with such large orders, it could get the cutters to make up whatever models it desired. Thus, unpopular models would be held to a minimum, and the store's inventory would be made up largely of highly salable merchandise. Moreover, if there were regional differences in popularity, the central merchandising department could have the store ship slow-selling models to other stores at which they would move.

If experience proved the original model stock plan to be incorrect, it could be adjusted during the first two or three years of central merchandising. In this way, James Roberti Dry Goods Company could, it was explained, almost entirely eliminate markdowns at the end of the season. In addition, the plan made it unnecessary for the buyers to visit the market in New York and thus offered a considerable saving in traveling expenses.

The merchandise manager was enthusiastic about the plan and felt that the saving in travel cost alone would almost pay the commission charges of the central merchandising department of the chain; furthermore, the net profit of women's apparel sales would greatly increase because markdowns at the end of the season could be kept to a minimum. Moreover, he believed that relieving the buyers of their responsibility for buying would leave them more time to supervise the sales personnel on the floor, thus bringing about an increase in sales efficiency.

The buyers, on the other hand, felt that the plan robbed them of the opportunity to exercise their most valuable skill and made them merely head salesgirls. Moreover, they resented the loss of their trips to New York every buying season.

Because the conflict between the merchandise manager and the buyers was so sharp, the decision was left to Mr. Roberti.

QUESTIONS

1. What would be some of the major problems that the Roberti Company would face if it adopted the policy of central merchandising?
2. How might a store of this size control its purchasing more effectively without adopting central merchandising?
3. How effective do you believe the model stock plan would be?
4. What procedure should Mr. Roberti follow in dealing with the buyers?
5. What would you advise Mr. Roberti to do?

SIX

Channels of distribution: consumer goods

Van-Paul Fashions, Inc. — 25

CONSIDERING THE USE OF DIRECT SELLING TECHNIQUES

Van-Paul Fashions markets a woman's rayon scarf. A picture of a popular movie star is placed on the scarf by a patented photographic process. The Acme Manufacturing Company, who manufactures the scarves for Van-Paul Fashions, holds the patent.

The exclusive right to market any promotional item (such as ties, scarves, and handkerchiefs) made by this process was formerly assigned by Acme Manufacturing to the Globe Trading Company.

Globe in turn gave Van-Paul an exclusive franchise to sell the scarves in return for 20 per cent of the wholesale selling price. This arrangement was changed recently to allow Van-Paul to deal directly with Acme. However, Globe Trading was to receive a commission of 4 per cent of the wholesale selling price for each scarf sold.

Van-Paul Fashions engages a selling agent to do the actual selling of the scarves on the basis of a 10 per cent commission of the wholesale price. In addition to the 10 per cent received by the selling agent and the 4 per cent given to Globe Trading, the movie star receives 5 per cent of the wholesale price. A cash discount of 2 per cent is also allowed to purchasers. In total, 21 per cent of the wholesale price is paid out in commissions, plus the actual cost charged by Acme Manufacturing for the scarf.

The scarves are priced competitively with other rayon scarves on the market, and no sales resistance has been felt because of price.

The president of Van-Paul Fashions has considered the idea of selling the scarves by direct mail through advertisements in movie magazines.

There are a number of advantages in using direct mail for selling the scarves:

1. The 10 per cent now paid to the selling agent could be saved.
2. There would be no need of a 2 per cent cash discount.
3. Van-Paul would sell the item at the retail price, which is roughly 65 per cent more than the wholesale price at which it is now sold.

However, there are several disadvantages in the use of direct mail:

1. A shipping department would have to be established to pack and ship the scarves to the individual customers. At present, this department is not needed because Acme ships the orders from its factory to Van-Paul, who, in turn, can ship a complete order in one shipment to department stores carrying the scarves.
2. Some of the stores that are presently stocking the item may object to its sale by direct mail in their cities.
3. The cost of the magazine space would be very high. The president has found that for $1,275 he can get a one-time insertion of a one-half column ad in three movie magazines having a combined circulation of 1,500,000.

Van-Paul would have to sell about 300 scarves in order to cover the cost of space alone. In addition, there would be advertising production and handling and shipping costs. Because of these additional costs

it would probably be necessary, in order to break even, to sell 500 scarves per advertisement. Any number over 500 would represent a profit.

The publications are unable to state accurately what the expected returns would be on an item of this type. Therefore, it is hard for Van-Paul to decide whether to risk the costs of direct mail selling or to confine its selling effort to its present marketing arrangements.

QUESTIONS

1. Should Van-Paul attempt to sell the scarves direct?
2. What methods other than those indicated might Van-Paul use?
3. What would be some of the problems Van-Paul would face with its sales agent if it decided on direct distribution?
4. Give the advantages and disadvantages of the use of a sales agent for the distribution of a product of this type.
5. Assuming Van-Paul was not satisfied with its sales agent, is there any method other than direct selling that you could recommend?

The Palmer Company — 26

LIMITING THE TYPES OF MIDDLEMEN

Last year, the Palmer Company, one of the largest manufacturers of soaps and toilet articles in the world, acquired the business of the Moray Company, which manufactured Gleam Creme Shampoo. It was felt that this nationally known and accepted creme shampoo would be a valuable addition to the company's line of toilet articles.

In order to retain the old Moray contacts, the Palmer Company established, within its own organization, a Moray division, whose efforts were directed solely to the sale of Gleam Creme Shampoo. This division was headed by a sales manager who reported directly to the vice-president in charge of sales. Under its original jobbing program, the Palmer Company planned to have the Moray division solicit all drug and notion wholesalers in towns having populations of 10,000 or more; the salesmen of the Palmer organization would sell wholesale accounts in towns having populations of less than 10,000.

Later in the year, it was the general opinion of most of the execu-

tives that a more satisfactory job could be done on Gleam Creme Shampoo if sales were made through distributors to a selected list of jobbers. This suggestion was made to the company's top management, and the recommendation was approved. Immediately thereafter, the Palmer salesmen were instructed to discontinue selling Gleam Creme Shampoo to all wholesale outlets; in turn, the Moray division salesmen received instructions to prepare a list and establish a selected group of wholesale distributors located in cities having a population of 10,000 or more for Gleam Creme Shampoo distribution. Sales were to be made only through dealers having a trade classification of *wholesale drug* or *wholesale notion house.*

Almost immediately after this list of wholesalers was set up, the Palmer Company began receiving requests from both the salesmen in the Moray division and in the Palmer organization to have "this or that account" added to their selected list of wholesalers. Some requests came direct from wholesalers who wished to handle the product. The company was agreeable and, in fact, eager to add all regular drug jobbers and wholesale notion accounts to the list, but it was not convinced that it was for the best interest of Gleam Creme Shampoo to sell every classification of wholesaler in the country.

The company received requests and recommendations from the men of the Moray division and the Palmer organization to sell wholesale grocers, wholesale paper companies, wholesale tobacco companies, wholesale candy companies, wagon jobbers, and other jobbers having no trade classification other than *miscellaneous wholesaler.*

After receiving this deluge of requests and recommendations for adding wholesalers of this type, a further conference was held with the company's top management. After thorough discussion and an analysis of the trends, it was decided that Gleam Creme Shampoo would be made available to retailers everywhere, in towns with populations under and over 10,000, through wholesalers having the trade classification of *wholesale drug* or *wholesale notion house.* The Palmer organization salesmen would call on and sell all such accounts in cities with populations of less than 10,000 and also those in cities with populations over 10,000 that were not worked by the Moray division representatives. The Moray division salesmen would contact and sell all such accounts located in cities on their list.

However, some wholesalers on the list, to whom the company had been selling from the outset, did not have the trade classification of *wholesale drug* or *wholesale notion house.* The company's policy was

to allow these accounts to remain on the list and to continue to supply them until it was no longer to its best interest to do so. With the exception of these, no accounts having a trade classification other than *wholesale drug* or *wholesale notion house* were to be sold. Any new wholesale account for Gleam Creme Shampoo had to be rated or listed by Dun & Bradstreet as either a *wholesale drug house* or a *wholesale notion house* before being allowed to handle the product.

QUESTIONS

1. Was the company justified in its decision to limit the distribution of Gleam Creme Shampoo through *wholesale drug* and *wholesale notion houses* only?
2. Why might a company limit the number of outlets for a product that needs intensive distribution?
3. Did the company follow a sound distribution program in the introduction of the shampoo?
4. What distribution plan would you recommend for the company?
5. How should the company have handled the wholesale accounts that were not going to be allowed to continue carrying the product?

The Whigmore Turkey Ranch — 27

CONSIDERING THE USE OF FOOD BROKERS

Discouraged by the risk of loss from price fluctuations, Mr. A. B. Whigmore, for many years a turkey rancher in the Willamette Valley in Oregon, sought some method of decreasing the sharp seasonality of his business and broadening his market. Almost the entire turkey crop of the United States has conventionally been pointed to Thanksgiving Day and Christmas Day business. The birds are hatched at times that will allow them to be brought to maturity primarily for these two periods. As a result, the rancher's entire year's work was subject to last minute price variations that he could not forecast at the time it was necessary to plan the size of the flocks to be brought to market. The birds could not be withheld from the market, but had to be sold for whatever the market price was.

Typically, Mr. Whigmore ran flocks of from 10,000 to 15,000 birds. In some years, his crop was harvested at prices that paid him more

than adequate income, but in other years he had to sell at prices which resulted in a loss for his year's work. After several years of experimentation, Mr. Whigmore developed a line of canned turkey products that included jars of thinly sliced white and dark meat, cans of turkey livers, and a canned concentrated turkey soup. Thus, he planned to minimize wastage in the use of the turkeys. In addition, he planned, ultimately, to introduce canned smoked turkey and canned barbecued turkey.

Mr. Whigmore found that he could have his various turkey products canned on a custom basis in a Portland cannery, thus avoiding the capital expense of installing his own canning equipment.

He prepared the meat and soup stock and had several cases of each turkey product canned. Early in 1958, after he had sold his fall crop, he brought his samples to the western buyers of several chain food store firms. Although every buyer admitted that the products were of exceptional flavor and quality, all of them stated that even if they could be sure of consumer acceptance, which they doubted, they could not consider the products in such small quantities as Mr. Whigmore planned to offer at the outset. On the other hand, several smaller grocery stores were willing to stock small quantities if they could be sure of a supply when they needed reorders.

Mr. Whigmore was unwilling to use his bank credit to launch his canned products because he might be caught with falling turkey prices the following fall, and would need funds to tide him over. He felt certain, therefore, that he could not afford to hire a salesman, and he could not leave his turkey raising and the preparation of his canned products to do the selling himself.

One of the chain store buyers had suggested that he write to the National Food Brokers Association for advice. He wrote, explaining his situation as fully as he could by mail. The Association responded by sending him a list of members, and referring him to a good broker in Portland for a fuller explanation.

This broker informed him that a large proportion of small canners and producers of specialty food products distributed largely through food brokers. Such brokers typically represent a group of noncompeting food producers on a commission basis. They did not take title to the merchandise and did not make deliveries. They called on wholesalers or retailers, whichever was more appropriate for the particular product, sampling what they had to sell, passing on what sales promotional information they could, and making every effort to intro-

duce and broaden the market for the lines they represented. The producer shipped merchandise on receipt of orders from the brokers and paid the brokers a commission after he had collected from the wholesalers or retailers who had bought his products. A commission of 2½ per cent was about the average offered.

Many food brokers maintained sales forces from five to 20 salesmen and called frequently on the wholesalers or retailers with whom they were in contact. Although they did not assume responsibility for collections, they were frequently able to help when accounts were slow. And because they received their commissions only after their principals had been paid, they tried to avoid selling to firms with poor or slow credit.

In addition to completing sales, they passed back to their principals whatever information they could find on market conditions, competitive offerings, and price trends. They were able to serve as intermediaries in misunderstandings arising from lost or damaged shipments of merchandise, failure to meet requirements on orders, and disputes on billings.

Manufacturers using food brokers had to make their own arrangements for shipping the merchandise and—when marketing needs required—for regional warehousing. However, brokers were often helpful in pooling orders so that the economies of carload shipments would be realized.

Mr. Whigmore believed that food brokers offered him his most logical possibility for testing the market for his line of canned turkey products. He, therefore, entered into contracts with a broker in Portland, one in Seattle, and one in San Francisco. He planned to limit his production for the first year so that his accustomed turkey business would not be decreased appreciably. Ultimately, he hoped to develop a large enough volume of canned food business so that he could extend his production season and raise turkeys for various maturity dates from midsummer to fall. As his output of canned turkey products increased, he planned to use food brokers in additional wholesale markets until shipping costs prohibited further expansion.

QUESTIONS

1. Should Mr. Whigmore have considered attempting to combine two different kinds of marketing activity?

2. Would he get aggressive enough sales promotional support from a food broker?
3. Would he have done better to attempt to sell his canned products to some retailing organization for private branding?
4. What are the advantages and the disadvantages of using food brokers?

Salem Company — 28

SELLING THROUGH CATALOGUES

The Salem Company, established in a large eastern city in 1884, has become the second largest department store in that city. Although it has never attempted to develop a mail-order business, the management is now considering the advisability of utilizing this approach to offset the moving of so many of its customers to the suburbs.

Salem carried broad lines of merchandise of medium and high price lines and had a sales volume for the latest fiscal year of $50,000,000. The store occupies about a full block in the downtown shopping district and serves a metropolitan population estimated at over 2,000,000 persons. The company carried the range of department store merchandise.

In analyzing the opportunities for mail-order selling, the research director pointed out that mail-order business differs from ordinary retailing in a number of ways:

1. *Special resources are necessary.* When an item of merchandise is offered for sale in a mail-order catalogue, that item must be available during the life of the catalogue, so that forecasting of sales must be very accurate. Should a retail store manager experience a run on an item and be unable to replenish his stocks, he has merely to remove the mannequin displaying the item or withdraw his advertisement.

The catalogue, however, has the effect of holding the merchandise out for sale for a long period of time. Only a few statements of "Merchandise no longer available" will discredit the attempt to build a mail-order business.

It can therefore be concluded that the mail-order operator, faced as he is with extensive "back-up" problems, must deal with special resources capable of handling his unique requirements.

2. *Differences in styles that succeed.* A successful item on the retail floor will not necessarily succeed in the mail-order business. The item must be capable of promotion through the medium of illustration. Thus, there must be a picture-quality in the merchandise unless it is a very staple item and can be ordered without consulting an illustration.

3. *Special technical skill is required.* Since only a small percentage of those who start mail-order businesses finally succeed, there must be some special attribute involved in a successful undertaking. A knowledge of this intangible skill is necessary to attain a position of leadership in mail-order selling.

4. *Exact and prompt customer service is essential.* In the mail-order business, the customer is removed from the actual merchandise and cannot be offered an alternate item for merchandise which is not in stock. Thus, either the goods are available to ship, or the order is lost.

The research director added that, as the country emerged from the depression of 1929-1932, the catalogue houses led the retailers in recovery. By 1940, the catalogue had changed considerably. Color advertisements became the rule. The paper quality had improved markedly. Photography was introduced and became the principal method of illustration. The advertising copy became more factual and "puffing" was reduced to a minimum. The merchandise lines were broadened to include both popular as well as quality items.

Another change that had developed by 1940 was the method of ordering. By that date, 20 per cent of the catalogue business originated through order offices and order desks in retail stores. Perhaps the most spectacular development occurred during the years 1946 to 1950. It was during this period that catalogue selling moved into the city and suburban markets. The telephone order office became extremely popular. In 1954, 40 per cent of the annual catalogue sales originated through order offices, order desks, and telephone offices, and about 50 per cent of catalogue business was done on installment credit.

Where formerly inaccessibility was the foundation of the business, assortment of merchandise and convenience became the bases of appeal. The research director reported that one of the major department stores in Chicago planned to concentrate on catalogue selling and ultimately hoped to do 25 per cent of its total business in this manner.

In recommending that Salem adopt catalogue selling, the research director believed that the broad saturation of telephones provided a

natural medium to assist catalogue promotion. Salem could place more and more emphasis on telephone ordering if it used catalogues. Special 24-hour answering services could be employed to provide service around the clock. Such availability might help to capture the impulse buyer as he or she was thumbing through the catalogue and would provide instantaneous demand satisfaction through the medium of the telephone.

The manager of the store, however, feared that the major problem would be to develop an awareness in their customers of the possibility of shopping by catalogue. Although he did not doubt that once the customers placed one order, they could generally be depended upon to repeat, the real problem would be to get them to place the first order.

Another limiting factor in the development of catalogue business would be the cost of the catalogue. To be effective, the manager indicated that the catalogues would have to be distributed widely, even in marginal areas. He estimated that cost of the catalogue would be $1.50 a copy, and that the cost of distribution of catalogues would be so high that mail-order selling would entail a serious risk.

QUESTIONS

1. Do you believe a large department store can hold its present customers who are moving to the suburbs through the use of catalogue selling?
2. On what bases would you recommend that Salem adopt catalogue selling?
3. In what way might a store like Salem meet the competition of Sears Roebuck Catalogue selling? Since Sears does about 25 per cent of its volume by mail order, might Salem hope to also attain this percentage volume?
4. What policy should the Salem Store adopt?

The Health Aid Manufacturing Company — 29

ANALYZING A DISTRIBUTION POLICY

The Health Aid Manufacturing Company was founded in the early thirties for the purpose of manufacturing and packaging a full line

of family health aids and simple household remedies. These items were formerly compounded and packaged by wholesale druggists and retail drug stores. Health Aid Manufacturing Company was founded on the principle that to produce and package this merchandise in a large volume would lead to:

(a) Economical production;
(b) Improved and uniform packaging;
(c) Closer quality control through laboratory techniques.

This theory proved successful because the company became one of the leading manufacturers in its field with an annual sales volume of over $5,000,000 and with both laboratories and warehouses on the West Coast, in the Chicago area, and on the Eastern Seaboard.

At the time of the company's inception, about 90 per cent of its business was done through service wholesale druggists, a type of wholesaler who carries a complete line of drug supplies, amounting to some 35,000 items. In addition, the company had a number of detail men who traveled throughout the country visiting the retail trade and taking orders which, in most instances, were turned over to the wholesaler for fulfillment.

The only promotional program carried out by the Health Aid Manufacturing Company was for its own customers, wholesalers, and retailers and was developed by its own advertising department. The company did consumer advertising and depended on its wholesalers and retailers to get consumer preference for Health Aid products.

The profit of the wholesalers was one-third greater on items manufactured by the Health Aid Manufacturing Company than on the proprietary items that they distributed for other manufacturers.

In 1940, although the company was rapidly expanding on a national scale, it could not retain the full cooperation of its service wholesalers in the New York metropolitan area owing to a desire on the part of those wholesalers to:

(a) Produce or package similar products under their own label;
(b) Purchase lower cost merchandise from other suppliers, that is, at best price without regard for consistency or package.

At that time, the company had four detail salesmen servicing the retail drug stores in the metropolitan area and taking orders for the account of the wholesale druggists. An analysis of total sales in this area showed that the volume was completely unsatisfactory. It brought out the amazing fact that the four detail men were actually writing up over 70 per cent of the total volume of orders in this

area. Less than 30 per cent was solicited by the wholesalers although they actually handled all the orders for distribution.

As a result of this analysis, the company decided to expand its sales force gradually and to accept orders on a direct as well as turnover (to wholesalers) basis. The company also decided to add allied products, such as pharmaceuticals, to its line. These could not be sold prior to this time due to the distributors' franchise agreement with the pharmaceutical manufacturers. By 1952 the company had expanded its metropolitan sales force to include 14 men and, as a result of the new policy, had increased its sales volume to 700 per cent of the original volume when handled by the four detail salesmen. This policy was also extended to the New Jersey area where there were three salesmen covering the territory on a direct as well as turnover basis. Here again the results were highly satisfactory.

The service wholesale druggists used by Health Aid were connected with a group of approximately 115 service wholesalers who had joined together as a Wholesalers' Association because of their common character and purpose. The direct sales policy of the Health Aid Manufacturing Company in the New York metropolitan area and in New Jersey was the topic of discussion at several meetings of this association.

Because of the success of its new policy, the company felt it must decide whether to continue these direct sales throughout the country or to concentrate its direct sales in New York and New Jersey and continue the old method of distribution through wholesalers in the rest of the country.

The price to the retailer direct or through wholesalers would be the same. The company would save the wholesalers commission but, as is inevitable in marketing, although a level of distribution is omitted, the expenses would remain. The company would be saddled with greater sales expense—the additional commercial expense of handling more orders in the office and the cost of shipping small orders direct to retailers.

Those in management who favored continuing the direct sales on a national basis pointed out that they had better control of their products because the wholesalers servicing a full line must, of necessity, neglect a larger number of items in their approach to retailers. They also insisted that on a direct basis they were able to handle the sale of allied products nationally, which they could not do when dis-

tributing through wholesalers because of franchise agreements between the distributors and pharmaceutical manufacturers.

The opposition took the viewpoint that the company had limited capital and could not afford the risk of credit losses on about 35,000 retail accounts, as compared to approximately 200 wholesale accounts. Moreover, as the volume of direct selling increased nationally, the distance from the manufacturer's warehouses would become greater, and the time consumed in making deliveries to the retailers as a result of delay in handling orders (credit approval, packing, shipping, etc.,) might cause them to select a competitor's product from the wholesaler.

QUESTIONS

1. If Health Aid Manufacturing Company decided to sell direct, what functions of the wholesaler would the company have to perform?
2. Is the fact that the company was successful in the New York area sufficient evidence to expect that a similar plan on a national basis would get the same results? Why or why not?
3. What procedure would you recommend that the company follow in arriving at a decision?
4. Should Health Aid Manufacturing Company extend its direct sales policy outside the New York and New Jersey areas?

Van Eden Solvents Company — 30

SELECTING THE CHANNEL OF DISTRIBUTION FOR A NEW PRODUCT LINE

Since 1921, the Van Eden Solvents Company had distributed a steadily growing line of penetrating oils, rust solvents, graphites, and related products. At the outset, the company had sold to leading wholesale hardware firms, which had, in turn, sold to retail hardware stores. As the line of products was increased to include such items as grease sticks, special lubricants for automobile spring leaves, and rust inhibitors, the company widened its distribution to include automobile supply wholesalers, who sold to gasoline service stations and

garages. Products sold through these channels carried the company's brand name, "Slix."

In 1934, when the company felt the need for additional sales, it had begun to sell to several of the regional automobile supply chains under the private brands of these chains.

The company had a sales force of 14 men by 1940. One of these men sold to the automobile supply chains, three sold to hardware wholesale firms, and the remaining 10 called on automobile supply wholesalers. By 1941, the company had built up a sales volume of $2,800,000. Because some of its leading products were made of non-critical materials, it had been able to increase its sales markedly during the years of World War II, and to reduce its selling expenses materially at the same time. By 1959, its sales totaled nearly $7 million a year.

The executives of the company were convinced that many of the products developed during the war years would offer them sharp competition when raw materials were again freely available, and had, therefore, undertaken a program of intensive product research. Although several new products appropriate to the company's usual channels of distribution had been developed, and important improvements had been made in some of its regular lines, the executives believed that two new products offered greater market potentials.

The first of these products was an enamel polish that could be used on the enameled surfaces of refrigerators and gas and electric ranges. This polish did not eat into the enamel surfaces, did not require excessive rubbing or polishing, and kept the surfaces at their original high lustre. The second product was a cleanser that could be used on sinks and bathtubs, to remove fruit stains and brown limestone stains caused by hard water and to cut grease deposits. This product, also, did not harm porcelain or enameled surfaces.

A marketing research firm, which was engaged to study the market possibilities, reported that, although there were several refrigerator polishes on the market, none was so efficient or so easy to use as the Van Eden product, and that the new cleanser was unique. The research firm also reported that housewives showed a high degree of interest in both new products.

In the past, Van Eden had depended largely on point-of-purchase display material to sell the Slix products and had confined its advertising to a small annual budget in trade publications. Most of its advertising funds had gone to develop and distribute sales racks,

dealer display material, and leaflets that wholesalers could send to their customers with their monthly bills.

The executives of the company believed that the automotive outlets offered little or no access to the market for the two new products, but felt that hardware stores would give them some market coverage. If they elected to distribute through hardware stores, the two new products could merely be added to the line presented by the three salesmen who called on wholesale hardware firms. Retail distribution could, in that way, be gradually developed, with little more cost than the expense of additional point-of-purchase advertising material.

On the other hand, the marketing research firm, which had made the study of the potential market for the two new products, made the very emphatic recommendation that Van Eden seek distribution for the two new products through supermarkets, since—they said—housewives made relatively few visits to hardware stores, but shopped at supermarkets regularly. In addition, the research firm recommended the start of a relatively modest but continuous program of consumer advertising to support the introduction of the new products.

Executives of Van Eden conceded that supermarkets were a more logical outlet for the two new products, but they realized that the attempt to build distribution through them would entail organizing another team of salesmen, who could not be expected to pay their way for possibly two or three years. When the cost of hiring a new team of salesmen was added to the cost of even a modest schedule of consumer advertising, the executives wondered if a smaller return from much more limited sales through hardware stores might not be preferable.

QUESTIONS

1. What would be the advantages of Van Eden Solvents Company selling through hardware outlets?
2. What factors should determine the kind of outlets that the Van Eden Company selects for these products?
3. Evaluate the recommendations of the marketing research firm that supermarkets be used in conjunction with consumer advertising.
4. What channels of distribution should Van Eden select?

SEVEN

Channels of distribution: industrial goods

The Sampson Machinery Company — 31

SELECTING A CHANNEL OF DISTRIBUTION FOR AN INDUSTRIAL PRODUCT

The Sampson Machinery Company manufactures and sells a wide variety of centrifugal, rotary, and reciprocating power and steam driven pumps, compressors, meters, multi-v, and variable speed drives, water softeners, large diesel and gas engines, steam turbines, rock drills, and other specialized equipment.

The manufacturing is separated at six plants according to the different products. The smaller and more popular products (pumps,

compressors, and drives) are considered "standard products" and are built in quantities in specific shops set up for large-scale production.

The sales organization consists of 24 branch offices in which there are 93 sales engineers who sell all products requiring technical knowledge. There are 32 merchandising salesmen who sell standard products to 200 industrial dealers and 250 quantity buyer manufacturers who use these products as an integral part of their equipment.

The 93 sales engineers are all graduate chemical, mechanical, or electrical engineers, specifically trained to sell the technical products manufactured. Their services are usually reserved for the larger equipment employed in oil refineries, public utilities, water works, sewage disposal projects, and the like.

The 32 merchandising salesmen in most cases are not graduate engineers, but are especially schooled to teach dealers how to sell smaller products to small industries. They are also schooled in the application of multi-v belt (MVD) drive, and have a lesser knowledge of the proper application of pumping equipment. In most cases, they are not able to work out the problems required to apply pumping equipment to machinery where special knowledge of hydraulics, space limitations, and drive are important. The merchandising salesmen can make 1 per cent more commission in selling MVD than in selling pumping equipment. There is enough drive business to keep these men very busy, and they shun the more complicated pumping problem and devote their principal efforts to drive accounts and dealers. In many cases, the sales engineers in the field are not permitted to sell to original equipment manufacturers, and the merchandising salesmen avoid that type of sale for obvious reasons.

The sales organization at headquarters is broken down into several major parts. One division is arranged to supervise the operations of the merchandising men and to provide them with proper advertising, dealer education, and other literature. Another division makes up the major portion of the sales organization and handles the sales of the more expensive engineered products. There are also Sales Products Divisions to handle centrifugal pumps, reciprocating and rotary pumps, refrigeration and air conditioning equipment, and water softeners. The principal function of the Products Divisions is to promote the sale of their particular products, regardless of the type of distribution and marketing employed.

At headquarters, the sales organization consists of divisions specializing in the sale of each product, and a merchandising sales de-

partment promoting the sale of standard products through resale outlets and formulating sales campaigns and educational programs to dealers and original equipment manufacturers.

A new line of general service rotary pumps has been introduced which was designed for small capacity general services. Sales of these low-priced pumps are expected to run over $1,000,000 per year in gross bookings. Twenty-five per cent of these sales are expected through established dealers and approximately 50 per cent from original equipment manufacturers. Dealers are allowed a 25 per cent discount and original equipment manufacturers 20 per cent. Some applications of these pumps to original equipment manufacturers' products require ingenuity and engineering knowledge to fit them into the space available, perform the hydraulic service desired, and suit the drive speed available.

Manufacturing facilities have been completed to build over 30,000 of these pumps per year, which should be sufficient to take care of expected sales. Inventory already on hand, or soon to be completed, will cover over one quarter of expected yearly sales.

QUESTIONS

1. What would be the best avenues of distribution to reach this type of market in the shortest length of time?
2. In selling the equipment should the Sampson Company use its merchandising salesmen or its engineers?
3. In selling industrial equipment of this kind, if a choice has to be made, is it more important to select a person who has sales ability or one who has technical knowledge?
4. Would it be advisable for the company to use the merchandising salesmen to contact dealers and the engineers to contact the original equipment manufacturers? What would be the advantages and disadvantages of such a policy?

The Multi-Products Tool Company — 32

EDUCATING THE BUYERS OF A TECHNICAL PRODUCT

The Multi-Products Tool Company manufactures dies, tools, and plastic molds. In addition, the products of these tools are carried

through the manufacturing process to the production of finished pieces or completed instrument assemblies.

The work, composed of both industrial and consumer items, is largely on a job order basis. The company employs from 100 to 125 and has been able to diversify its production quite satisfactorily.

Recently, a designer, who was retained by the company on a consultant basis, had designed a production tool that was accepted by the company on a royalty basis. The company decided to manufacture and sell this tool. The tooling and manufacturing problems were routine matters because of past experience in this work. However, the article to be made was the first product that the company planned to sell itself; therefore, it had to set up a marketing program. None of the company executives had had any marketing experience.

This new tool, an electric soldering iron, was considered a revolutionary advance in the soldering iron field. Because of the nature of the commodity, it was necessary to sell these irons through industrial outlets.

Twelve such outlets were obtained to cover all sections of the United States. Industrial trade papers and magazines carried full-page advertisements of the iron. The response was very favorable and indicated that there was an extensive demand from foreign, as well as domestic markets.

At this time, a marketing research firm was engaged to analyze the sales possibilities of the iron. Although the research firm recognized that some attention had been given to marketing, it was easily apparent that it had been rather broad in nature and had extended mainly to plans on paper. The actual field work had not yet been undertaken.

As the field work was started, the advantages of the iron were studied. These included:

1. The soldering iron copper tip had a special plating which was good for approximately 400 hours of use. Because of this plating, it was not necessary to clean the tip. This feature was outstanding in both utility and sales value.

2. The tip always maintained its original shape. These first two items would offset at least $21.00 of the hidden costs in tip maintenance of ordinary irons.

3. A precise measurement of the amount of solder to be used was possible by adjusting a micrometer screw feed.

4. The plug-type tip was recessed so that the heater element was

inserted into the tip. This was an important improvement because other irons on the market merely conducted heat from the element to the tip by a butt contact. Higher temperatures were possible with decreased wattage.

Research showed that, in the growth of the soldering iron industry, there was almost a complete absence of disciplined thinking or procedure. The research also revealed that:

1. The soldering iron was attractive to a wide market. Both skilled and unskilled persons expressed interest in the iron because of its simplicity of operation.
2. Factory personnel were difficult to train in new lines. Although the iron reduced the job of soldering to merely the pulling of a trigger, it would be difficult to train personnel to know what to solder and how to do it.

The research firm found that in a number of cases customers who had used the iron were not always pleased with the results. The follow-ups that were made showed that the difficulty came about primarily through improper use of the iron and ignorance of the principles of soldering. On the basis of its study, the research firm concluded that the Multi-Products Tool Company must educate the trade in soldering techniques and in the adaptation of these techniques to its electric soldering iron.

To help solve this problem, the company began to send to all customers a monthly bulletin in which suggestions were included about the techniques the company desired its customers to use.

After the analysis, it was decided to use manufacturers' representatives, granting them the right to handle not more than three lines from three different companies. This policy was selected so that the representatives would have an adequate number of products to make their operations profitable; at the same time, they would not spread their efforts among too many items. The representatives in turn selected distributors carrying both electrical and industrial items for the purpose of *demonstration selling only*.

QUESTIONS

1. Do you agree with the marketing research firm that the basic problem of Multi-Products Tool Company is one of educating the buyers?
2. What further steps could the company take to educate its market in order to assure the success of the iron?

3. How important is the use of a monthly bulletin in educating the buyers?
4. What method of distribution would you recommend that the company adopt to solve its basic problem?

Blanchard Company — 33

DETERMINING A DISTRIBUTION PLAN

The Blanchard Company is engaged in the design, manufacture, and sale of a wide range of advertising novelties sold to business firms for distribution as gifts and sales reminders.

The company has always sold directly to its customers through a nationwide sales force working out of 26 sales offices. The company has emphasized the personal sales approach in its business and maintains an active research department to help the salesmen offer the services that the company believes are important for the continued growth of its clients.

The Blanchard line of advertising novelties includes some 200 different items. Among the different categories of the merchandise manufactured are: engraved products, metal and plastic novelties, leather goods, playing cards, and paper products. Sales have averaged $15,000,000 a year for the past five years.

Recently, in an attempt to diversify its operations, Blanchard bought the Special Pen Company, a small midwestern organization that had successfully developed a high-quality ball point pen, but that had had only limited success in getting retailers to handle the product.

The Special Pen Company had been unable to establish brand loyalty, possibly because it did not have adequate advertising funds and it had been difficult to show the product superiority in comparison with leading brands of ball point pens. Therefore, the Special Pen Company attempted to obtain retailer support by offering better service to retailers than competitive pen manufacturers offered. It adopted the slogan, "Service is our motto."

Results were not very satisfactory and, at the time Blanchard purchased the Special Pen Company, the directors of the latter had decided to offer the pen at a price lower than those of nationally advertised products.

This decision was based on the recommendation of the sales manager, who believed it would be possible to convince the retailers that they would make a greater profit on the Special Pen by selling a greater quantity of the pens at a lower margin. He believed if both the Special Pen Company and the retailers cut their margins by 15 per cent, Special could offer the pen to consumers for 50 cents less than any comparable pen on the market.

Special Pen's advertising agency, however, had not been in favor of the plan of the sales manager. The agency representative stated that the consumer would be reluctant to buy a product of this kind on a price basis because, although the consumer is price conscious, he is also quality conscious. The typical consumer would tend to consider a lower priced, unknown product as of poorer quality than the nationally advertised products. The price differential would emphasize this belief. It was his opinion that the pen should sell at a price equal to that of the national competitors.

In his report he had stated that the sales manager's plan would not be profitable to the retailer because his margin of profit would be too low. It was important, in his opinion, to give the retailers an even greater margin so that they would push the product. Special Pen needed the full support of the retailers because it could not rely on brand preference to pull the pens through the channels of distribution as some of the major companies were doing.

The Blanchard Company had not made any final plans as to how it should sell the pen. The executives had tested the product very carefully and found that it was superior to the other pens on the market. They believed that there was a greater potential volume for the pen if they sold it as a consumer item instead of including it among the list of items that it sold for remembrance advertising.

QUESTIONS

1. Should Blanchard sell the pen through its present sales force?
2. What pricing policy should Blanchard adopt for the pen?
3. Assuming Blanchard decides not to use its present salesmen, set up a plan of distribution for the product.
4. Evaluate the use of agent middlemen for the sale of the pen.

Midwest Electronics Corporation — 34

Midwest Electronics Corporation was a small company that was formed to develop, manufacture, and market a new type of sound recording equipment, magnetic wire recorders. Its limited capital was invested in manufacturing facilities and product engineering. Because Midwest did not have a sales force and was financially unable to build one, it was faced with the problem of what method of distribution to use.

In the opinion of the officers of the firm, several factors were expected to favor its survival and growth. First of all, the product was radically new, and public interest had already been aroused through news reports of the use of wire recorders during the war. The new process was superior to existing recording methods in most respects and was expected by many authorities to replace other methods. Also, intense competition within the field was not expected for possibly a year, because shortages of certain key parts and components were acting as production bottlenecks. Finally, other wire recorders were priced higher. Midwest could sell its product about 30 per cent lower than any of the current models on the market.

Because of the versatility of wire recorders, their compactness and portability, and the ease with which high-fidelity recordings could be made, the machines appeared to have a market among several different classes of users:

1. Business field
   (a) Offices: for dictation, recording interviews, conferences, and telephone conversations.
   (b) Traveling: salesmen's reports and correspondence, investigators, reporters, field supervisors, and so forth.
2. Institutional and organizational field—Court testimony and proceedings, meetings and conventions, speeches, and so forth.
3. Educational and Professional Field—Teaching, practice, and rehearsal of speech, language, and music; recording of performances, programs, speeches, lectures; "talking books" for the blind; reporters' on-the-spot recording of news events, and so forth.
4. Consumer Market—Home recordings of radio programs, operas, and concerts; children's early speech and sayings; parties and family gatherings, and so forth.

Because of the variety of possible users, each of which was best reached through a different distributive channel, there appeared to be several choices open to the corporation in selecting its distribution channels. The officers desired to exercise the utmost care in making such decisions, because they realized that their choice might well determine the future success or failure of a small concern attempting to compete with nationally advertised, mass-produced equipment. The following possibilities were enumerated by the president of the corporation:

1. Have one national representative cover all markets and areas and act as the firm's sales force.
2. Have one national representative in each type of market—business, institutional, professional, and consumer—or split the markets among two or three representatives already established in those fields.
3. Have regional or local representatives, instead of national—either one per region or trading area, or one for each class of trade in each territory.
4. Start with distribution locally and within the surrounding region—through a single representative or by direct contact with distributors—and expand gradually.
5. Sell through large department stores, chains, and/or mail order houses.

Irrespective of the distribution channel selected, it had to be decided whether:

1. Distribution was to be exclusive, selective, or open.
2. Manufacturers' agent(s) or regular distributor(s) were to be used (the former selling on commission, the latter purchasing for resale).
3. Full-line electrical wholesalers or agents, or specialty distributors or agents were to be used.

The president of Midwest Electronics wanted to obtain the widest possible and maximum volume distribution as rapidly as possible. As a result he recommended that the company appoint a large number of exclusive local distributors, one in each trading center; also that the company sell locally, at least for an introductory period, exclusively through a large department store, which promised publicity, advertising, and store promotion; and thirdly, that the company sell through a mail order house that had expressed considerable interest.

The firm's vice-president, on the other hand, pointed out that the plan had several serious shortcomings. To contact numerous local distributors would require a large sales force and advertising outlay for sales promotion and support. The granting of exclusive territories to regular radio distributors might result in neglect, or in only superficial coverage of the business, institutional, and educational fields, and in insufficient development of the professional market. Although the publicity and prestige that a large department store could provide were fully acknowledged, there were also certain bad features. Exclusive distribution through a single retail outlet, no matter how large, would limit sales volume to a small portion of its potential in the area; department stores were in a position to dictate to a small manufacturer in such matters as price—either price to them or retail price—and styling; their promotional effort could not be controlled and could not be intensive on any one among the scores of items in their radio and phonograph department; and there was some feeling in trade circles that department store distribution of such a product, rather than creating prestige, might actually tend to cheapen it in the eyes of the public—particularly if the store were not itself a "prestige" store.

Finally, as for the mail order house outlet, the vice-president pointed out that such sales would have to be under the house's private brand, which would not benefit—and might even compete with —the firm's own branded products. He was of the opinion that such volume would be limited because the wire recorder was a new high-priced specialty product requiring aggressive promotion, whereas mail order selling was straight catalogue selling. Most of the arguments against department store distribution applied equally to mail order houses. He also pointed out that all three of these channels would be limited in coverage to the consumer market.

The vice-president recommended that Midwest plan from the long-term point of view, and that it "act like a big firm, if it ever intended to become one." His distribution plan was as follows:

1. No single distributor would be given exclusive territories, irrespective of the size of territory or type of distributor. Instead, for general coverage, two alternate plans were recommended: appointment of one national representative for the home market—selling to regional and local distributors as a manufacturers' agent (on a commission basis) and acting as Midwest's sales force for the home mar-

ket; alternately, appointment of regional manufacturers' agents, possibly one in each basic marketing area, to cover the home market in the same manner, but on a more localized, decentralized basis. In either case, the agents chosen would have to be radio, phonograph —or at least electrical appliance—specialists, with a sales force and contacts numerous enough to cover their assigned territories. Through them, exclusive local distributors, limited to retail sales, would be appointed. Thus, most of the advantages of a large sales force could be obtained without the cost; selling expenses would bear a fixed ratio to sales and would not be incurred without actual sales being made. Credit risk, and warehousing and shipping costs would remain unchanged from those of the president's plan of direct solicitation of distributors.

2. Close attention would be paid by Midwest's sales manager to the careful and sound development of the business, institutional, organizational, educational, and professional fields, which were thought likely to become the firm's eventual mainstay, in the face of intense future competition for the home recorder market. These markets appeared to require a different type of selling effort for maximum development; that is, direct sales solicitation, rather than retail store distribution. Distributors of audio-visual aids already existed in the educational-institutional-organizational field; much of the professional field would probably be reached via the normal coverage of the regular distributors (through radio, music, and department store outlets); however, the important business field would be more difficult, since most dictating machines were distributed through manufacturers' sales branches or agencies, and there were few qualified distributors available. The vice-president's plan was to appoint exclusive regional distributors in the audio-visual aid field and to reach the professional field by trade paper advertising to bring them into retail outlets. The business field would be developed slowly, by setting up exclusive agencies, starting perhaps with the largest cities and most industrialized trading areas, and expanding as competent distributors were added. It was believed that such agencies would come from two sources:

(a) Distributors of other office appliances, such as calculating and bookkeeping machines, who were willing to add and/or train specialty salesmen qualified to sell dictating machines.

(b) Regional and district sales managers of existing dictating-machine manufacturers, desirous of setting up on their own

as independent distributors and of building the necessary sales force.

It was anticipated that such agencies could be obtained through advertising.

QUESTIONS

1. What method of distribution should the Midwest Electronics Corporation adopt?
2. In deciding upon the channels of distribution, how important is the fact that Midwest has a 30 per cent price advantage?
3. What are some of the important problems that the company may face if it adopts the president's recommendation? The vice-president's recommendation?
4. When it is difficult to predict the future potential demand for a specialty product, is it better to take the "cream" from the market or to plan on long-range objectives?
5. Give the advantages and disadvantages of the Midwest Electronics Corporation using a department store, mail order house, manufacturers' agent, and a sales agent.

Sure-Plow Company — 35

A PLAN TO CIRCUMVENT THE WHOLESALER

The Sure-Plow Company sells its line of plows, as well as its coulter blade hub assemblies for the replacement market, to approximately twenty wholesale distributors of farm equipment, many of whom are distributors of other farm equipment for such firms as International Harvester Company, Allis Chalmers Manufacturing Company, Cockshutt Plow Company, Ltd., Budd Company, and Love Tractor Company.

Sales of the company have not increased for the past five years, and for the current fiscal year it appears that sales will be about two per cent less than last year. As a result, the company has decided to evaluate its distribution policy to determine whether or not it would be more profitable to sell direct to retail outlets throughout the agricultural areas of the United States.

The line of plows sold by Sure-Plow is competitive with a similar line of plows made by seven other small manufacturers. Sure-Plow ranks fifth among this group of small manufacturers with a sales volume for the last fiscal year of $395,000. However, the plows sold by the company are considerably less competitive with the plows sold by the International Harvester Company, J. I. Case Company, Oliver Company, Minneapolis Moline Company, and others, because the large manufacturers of farm equipment concentrate principally on making a line of plows under 10 feet in width.

Sure-Plow's products are especially suited for the soil conditions of the wheat belt of the Midwest, where large plow rigs up to widths of 50 feet are common; therefore, the major farm equipment manufacturers do not compete strongly for this localized market. However, most of the dealers who distribute the equipment of Sure-Plow also distribute plows and farm equipment manufactured by the major farm equipment manufacturers. Although the large manufacturers do not have any objection to this arrangement, the executives of Sure-Plow believe that the distributors devote their principal efforts to the sale of the products of the large manufacturers without giving proper emphasis to its products.

Although Sure-Plow felt before that its volume would not justify direct retail distribution and the maintenance of branch warehouses, the executives, in analyzing the potential market, were almost convinced that direct distribution through such warehouses was not essential.

The sales division of the Sure-Plow Company consists of the sales manager and two salesmen. All three men devote most of their time to working with the wholesale distributors. When the distributor requests missionary work, the sales manager or one of the salesmen makes calls on either the retail dealer or in some instances the farmer.

Due to the frequent requests that are made, the sales manager and the salesmen find themselves spending about 80 per cent of their time doing missionary work. Because the 250 dealers to whom the distributors sell the plows are located principally in Oklahoma, Kansas, Nebraska, Texas, New Mexico, Montana, Wyoming, Colorado, North Dakota, and South Dakota, it is very difficult for the Sure-Plow sales staff to fulfill all the requests that the distributors make, particularly when these requests are received during the periods of the sales peaks in the spring and fall months.

In attempting to reach a conclusion as to the future demand for agricultural equipment, the sales manager has made a study of some of the more important business trends. As a result of his analysis, he has prepared a report in which he recommends changes in the distribution policies.

Exhibit I

Sales manager's report

The nation's expanding population and the increased food consumption trend indicate a heavy demand for agricultural equipment. Food consumption is expected to rise steadily and a 40 per cent increase over the next 25 years seems reasonable. The demand for additional agricultural equipment will be accelerated by the declining farm population, with fewer farm workers operating larger, but fewer, farms. The future production challenge—that of feeding 38,000,000 more people by 1975—will be expedited by continuing farm mechanization, permitting farm output per man-hour to maintain its upward trend.

During the past year, Sure-Plow has developed a new concept of plowing by adding the principle of "reversibility" to its plow so that it will throw the earth in only one direction regardless of the direction of travel. Although other companies make use of a reversibility feature, Sure-Plow's application of this principle makes the method self-adjusting and automatic. This new feature will be especially adaptable to irrigated and contour farming.

To take advantage of this feature and other research of the company, which includes the development of a complete line of new heavy-disc harrows, it is necessary for Sure-Plow to make some drastic changes in its distribution policies.

The 20 wholesale distributors that the company appointed in 1938 provided Sure-Plow with branch warehouses throughout its marketing area. These distributors were also able to get a satisfactory number of retail dealers to list the products. However, once this was accomplished, the salesmen of the distributors did not push Sure-Plow's products. It was only logical for them to use their sales efforts on the products of the large national manufacturers because of the ease with which sales of International Harvester, Allis Chalmers, and Budd Company might be made. The actual selling job for our plows was left to the sales staff of our company.

For Sure-Plow to meet the increasing demand for agricultural equipment, it is important that we discontinue selling our plows through wholesale distributors. Although this change in policy will necessitate an immediate financial outlay, we should be able to derive benefits from it within a relatively short period of time.

If we make the change, we will have to establish five warehouses to service the 250 retailers. Although these will not be as strategically located as the 20 warehouses of the distributors, we believe that we can give adequate service from them. It is our recommendation that these warehouses be located in the following cities: Lincoln, Nebraska; Laramie, Wyoming; Denver, Colorado; Oklahoma City, Oklahoma; and Dallas, Texas. Additional warehouses in the other states in which we sell should be opened as rapidly as finances will permit.

In each of these branches, we should have a sales manager, who will be in

charge of the territory, and one or two salesmen, besides the clerical and service help that local conditions may demand. We believe that the 20 per cent allowance that Sure-Plow gives to the distributors will be more than adequate to cover the expenses of having our own sales and distribution outlets.

QUESTIONS

1. Do you agree with the sales manager that there will be a continued heavy demand for agricultural equipment? What are the important factors which will determine this?
2. How important are industrial distributors to small firms, such as Sure-Plow, in distributing equipment of this nature?
3. Why do you believe that Sure-Plow selected wholesale distributors in 1938? Would the same reason for continuing to use these distributors be applicable today?
4. How important is the complaint of the company that the distributors do not give adequate sales effort to Sure-Plow's products?
5. Do you recommend that Sure-Plow accept the recommendations of the sales manager? If not, what policy would you advocate?
6. Will a manufacturer generally find it cheaper to circumvent the wholesaler?

Comet Machinery Corporation — 36

EVALUATING THE SALES OF INDUSTRIAL PRODUCTS

The Comet Machinery Corporation, a closed corporation founded in 1927, manufactures wood-working and custom design machinery. Its activities are twofold; it not only manufactures new machinery but also rebuilds and repairs used machinery. Sales and distribution functions are carried on in the New York City office, which consists of a display floor, showroom, and sales office. All office and administrative work for the company, as well as minor repairs, is also handled at this office.

Manufacturing and production facilities are located in a well-equipped modern plant about 50 miles from New York City. Complete equipment required for the production of the Aries line of wood-working machinery, the rebuilding or repair of used machinery,

and the design and production of custom design equipment is available in this plant.

Over a period of 25 years the company has developed a reputation for originality of design and dependability of manufacturing. Its products are recognized for their durability and performance. The executives have followed a policy of giving unbiased advice on special problems of customers. As a result, the company has received a great deal of business through the recommendations of satisfied customers.

Manufacturing operations

Manufacturing operations fall into three major categories: (1) the Aries line (Comet's own production line); (2) used machinery (rebuilding or repair); and, (3) custom design machinery.

The Aries wood-working machinery line comprises sanders, saw tables, shapers, routers, jointers, cut-off saws, and a few additional types of machines. This line has a low production cost because of the manufacturing methods employed. Certain elements of machines are fabricated from raw stock by the use of welding methods instead of the use of expensive castings. Accessories, such as motors, transmission units, bearings, cutter knives, and saw blades, are purchased advantageously (as a manufacturer) at discounts ranging from 20 per cent to 45 per cent and are assembled with machine elements produced in the plant. Because of these low production costs, the line not only enters into direct competition with other moderate-priced wood-working machinery lines but also competes successfully in the "used" high-priced machinery market. Sales of the line normally are made through the New York office, although some sales are made to other dealers.

Used equipment is purchased at auction from wood-working products manufacturers who have abandoned production, or have procured new equipment, or have accepted the machinery on a "trade-in" basis. It is then rebuilt or repaired in the manufacturing plant of the company.

A wide range of machines, designed to accommodate unusual problems and production requirements, is produced by the company. The machines are typical of those designed by competent professional engineers, and are used by a variety of industries for such operations as paper processing, metal working, panel bending, and

cigar box manufacturing. Machines have been designed not only for local customers but also for those abroad.

Sales and distribution

Four categories of products are sold through the New York sales office: (1) the Aries line, (2) the Venus, Saturn, and Mars lines of machinery (produced by different manufacturers), (3) rebuilt and repaired used machinery, and (4) custom-design machines. Markup policies vary according to the product sold.

The Aries line is priced according to current market conditions. Consistent with normal trade practices, however, the final sales price is established by production cost, plus markups of 33⅓ per cent and 25 per cent added to cost. Dealers are granted a discount of 25 per cent from the sales price.

The company sells the Venus, Saturn, and Mars lines as a manufacturers' agent on franchise. It has a complete coverage for the requirements of customers, ranging from low to high cost, from light duty to heavy duty equipment, and from bench tools to heavy machinery. Resale commission discounts average 20 per cent on sales price.

Rebuilt machinery is priced according to the purchase cost, the cost of rebuilding or repairing, and what the market will bear. Normally, the maximum resale price for such equipment will range from 50 per cent to 75 per cent of the retail price for equivalent new machinery. Accordingly the markup and profit depend to a great degree upon the purchase of used machines, the careful calculation of trade-in allowances, efficiency in the plant in renovation operations, and a careful survey of the current competitive market.

Custom-design machinery is priced after making a careful survey of the customer's requirements and a thorough analysis of the economic value of the machine to him. Manufacturing costs, including the designer's fee, supervision, overhead, raw materials, accessories, and labor, are estimated. In order to cover unforeseen difficulties in manufacture and changes in design required during the process of manufacture, a markup of 100 per cent is added as a safety factor. Finally, after analyses of requirements and value to the customer have been made, particularly in consideration of the savings accruing to the customer as a result of increased production or reduced unit cost, the final price is determined and agreed upon between the cus-

tomer and the company. Normally, the objective is to derive a gross profit of from 33⅓ per cent to 50 per cent for this type of work. This phase of the company's operations has proved the most profitable.

Sales volume and operating costs

Gross sales for the five-year period ending last January fluctuated between $100,000 and $200,000, depending upon the volume of orders. Overhead costs ranged from 14.9 per cent to 15.6 per cent of total net sales. The ratio of equipment returns to gross sales was extremely low; in fact, equipment returns were not sufficient to assist materially as a source for used machinery. Total payroll costs currently amount to about 18 per cent of net sales, costs being allocated according to type of equipment sold—the Aries line, custom design, or rebuilt used machinery. Production volume can be increased approximately 50 per cent without any increase in overhead costs, without increasing plant facilities, and with only a proportionate increase in labor costs.

Reasons for success of the company

1. A substantial reputation for originality and dependability of design and manufacture.
2. A succession of satisfied customers who have recommended the regular line, custom designed, and rebuilt machinery to others.
3. Lower manufacturing costs per unit for the Aries line, obtained through more ingenious and economical manufacturing methods.
4. The excellent reputation of and demand for the 3 lines sold on franchise.
5. The location of the New York sales office in the machinery shopping area. Characteristic of the machinery trade, customers "shop" when interested in the purchase of new equipment. Consequently, a substantial volume of business has been obtained from these customers-at-the-door.

The company realizes that the period of "high-sales-low-sales" effort, which has existed for several years, may soon subside and that competition, particularly in the low-cost machinery field, will return to a normal state. Sales for the Aries line may, therefore, decrease, but it is desirable to maintain production at a high enough level to

carry the plant over those periods in which custom products and rebuilts are relatively inactive. In order to expand the number of products sold on franchise for other manufacturers, the display and sales areas will require remodeling and additional space.

In view of the profitable nature of the custom-built machinery, it seems that efforts should be concentrated toward increasing sales for that category. Area surveys indicate that a substantial potential market exists in the greater Metropolitan area, which includes Northern New Jersey. Sales representatives employed in the past have proved undependable. The nature of the machinery business apparently encourages some salesmen to abandon the interests of the company and to act as agents themselves in the purchase and sale of used and new machinery, without notifying their employers. Advertising in trade magazines and the New York Classified Telephone Directory has resulted in a moderate volume of sales.

QUESTIONS

1. Should advertising appropriations be increased and the coverage broadened to include the "home-workshop" field?
2. Should attempts be made to widen dealer distribution for the Aries line?
3. What ethical methods are available further to capitalize on the reputation of the founder in the field of custom design machinery?
4. Should attempts be made to obtain a roving representative, a man of unquestionable integrity, to develop the market for custom machinery and the Aries line in the greater New York area?
5. Would it be more profitable to employ a nonfirm member to take charge of the New York sales office and to have the present manager serve as an outside representative?

The Sullivan Engineering Company — 37

SELLING AN INTANGIBLE

Although the Sullivan Engineering Company was engaged in some token manufacturing operations required to develop and test its

products and those of its licensees, the company's primary operation was to sell to other manufacturers licenses under the patents that it held. Although patents pertaining to several aspects of diesel operation were held, the major system of the Sullivan Company was known as the "Sullivan Combustion System." In March, 1959, the company had some 21 patents, the most important of which had seven years to run. In addition, the company held exclusive rights in the United States to 10 internationally known United States combustion patents.

Another of the company's undertakings involved carrying on research and operating an experimental laboratory to develop the Sullivan Combustion System.

Although deficits attributable to development costs and similar activity resulted from ventures into new fields, substantial working capital had been accumulated, and the company made a profit every year from 1947 to 1958. In 1958, the company experienced its first loss in 11 years. It was the opinion of management that this loss reflected the difficulties of some special readjustments of its licensees, not a change in the favorable trend shown over the past 11 years. Since results for the first quarter of 1959 were more favorable, company executives believed that the peak of their difficulties had passed. Further ground for optimism was found in the rapid expansion of diesel power applications in railway locomotives, highway, bus, and trucking fields, and for marine propulsion. The efforts of aeronautical engineers to use diesel power in aircraft and an increasing trend in the petroleum industry to use diesel power for pumping were expected to bring about promising new uses.

Management realized that much remained to be done, but these facts seemed to offer reasonable assurance that continued research and development would be rewarded by consistently profitable operation. Only in 1946 had operating income fallen seriously below operating expenses. Although a small operating deficit had appeared in 1947, the comparative results of those years indicated a vigorous response to improved conditions in general business. When a deficit had again appeared in 1958, company executives pointed out that this was "low on the income statement," that is, that amortization of patents, provision for which had never before been provided, put a heavy amortization burden on the remaining life of the patents. This, rather than operating losses, had been the cause of the deficit.

Advisory services accounted for a major portion of the president's

time. Exhibit I, an extract of the agreement negotiated with licensees, indicated in some detail the nature of the company's activities and illustrated the complexity of the selling effort required. The license agreement represented much effort on the part of company executives and had received favorable comments from attorneys. Its acceptance by present clients was regarded as further confirmation of the soundness of existing selling policies. For example, paragraphs 3 and 4 of the agreement involved a continuous advisory relationship with licensees and constituted a powerful selling argument. This was a logical commitment, since the acquisition of a license implied willingness on the part of the licensee to make the considerable capital investment necessary to exploit the license. Furthermore, six to eight months were required after the acquisition of the license to provide the necessary technical engineering facilities.

An additional aspect of the relationship between Sullivan Engineering Company and its licensees was the provision under which new developments were to be made available to licensees on the same terms as the patents licensed at the time of signing the agreement. As a result the licensee retained Sullivan Engineering Company as a consultant with regard to diesel combustion matters.

License agreements for the use of Sullivan Engineering patents had been negotiated with such manufacturers as Mack Trucks, Inc., Continental Motors Corp., Budd Corp., Chrysler Motors, and other leading producers. Although company executives agreed that wider usage of Sullivan's patents was a desirable objective for the future, they were convinced that concentration on present licensees should receive first consideration. This conviction resulted from the belief that successful expansion of sales effort could be based only upon a reputation for thoroughly satisfying licensees. Company executives also realized that they were selling a highly technical service purchased only by accomplished technicians on the basis of critical engineering evaluation.

Therefore, any formulation of marketing policies must, of necessity, recognize the differences between marketing an intangible, such as the right to exploit a patent, and marketing industrial goods. Questions such as sales, franchises, dealer discounts, allocation of sales territories, and location of markets were not as important as considerations of rendering technical advice and assistance to licensees, approaching potential users of the combustion system, and improving the basic patents.

Exhibit I

Extract of license agreement

The licensee shall manufacture the parts peculiar to Sullivan Engineering Company engines hereunder according to the specifications as to materials, design, workmanship, and all other requirements furnished to it by Sullivan Engineering Company. Sullivan Engineering Company, or its duly authorized representatives, shall be at liberty at all reasonable times during the working hours during the life of this agreement to enter into any workshop, factory, or place of business of the licensee, in which Sullivan Engineering Company engines are manufactured or located, for the purpose of inspection and to determine whether the licensee is complying with such specifications and requirements.

The term, "Sullivan Combustion Engine," as herein employed, shall be taken to mean any internal combustion engine which embodies any invention, or inventions, coming within any one or more United States Letters Patent incorporated in this agreement, whether such engine embodied such claim or claims when first manufactured or was later converted to the Sullivan Combustion System.

Any and all applications for reissue patents, which are based on any of the patents set forth, shall be taken as included in this agreement as if now listed herein. Any and all United States Letters Patent and Patent applications, the inventions of which relate to or are useful in internal combustion diesel engines (excepting pumps, nozzles, and nozzle holders), hereafter acquired or controlled by Sullivan Engineering Company, shall be promptly called to the licensee's attention by Sullivan Engineering Company, accompanied by a copy of any such application and power to inspect and obtain a copy of the patent office file thereof, and if accepted by the licensee as provided herein, shall be taken as included herein as if listed with the patents set forth. The licensee shall have 120 days in which to notify Sullivan Engineering Company in writing of its acceptance of the inclusion of such patents and/or patent applications in this agreement; except that if any such patents or patent applications are assigned to, or placed at the disposal of, Sullivan Engineering Company, the contractual obligations will be limited to such agreement as the third party will permit.

Sullivan Engineering Company shall, during the life of this agreement, communicate to the licensee any improvement, patentable or unpatentable, it may make, or to the benefit of which it may become entitled, or any further invention pertinent to the Sullivan Engineering Combustion System it may discover and own or control, provided in Sullivan Engineering Company's decision any such improvement or invention has been proven and Sullivan Engineering Company considers it of practical value. In the event of Sullivan Engineering Company's decision that an improvement has no practical value, Sullivan Engineering Company will refrain from advising any and all licensees of the nature of the discarded improvement. Sullivan Engineering Company shall, as soon as practicable, fully disclose to the licensee the nature and manner of using any approved improvement and will permit the licensee to make use of the same during the existence of this license without payment of any additional royalty, premium, or compensation therefor, provided the licensee shall notify Sullivan Engineering

Company in writing within 120 days of the receipt of this information of its acceptance of the inclusion of such inventions or improvements in this agreement. If any such invention or improvement is assigned to, or placed at the disposal of, Sullivan Engineering Company by a third party, this clause shall apply only insofar as Sullivan Engineering Company's contractual obligations to such third party will permit.

QUESTIONS

1. How should Sullivan Engineering Company market the patents that it develops?
2. Is it a sound policy for the company to concentrate its efforts on present licensees?
3. What is your opinion of the License Agreement? Does it protect Sullivan Engineering Company adequately? Should there be any changes made in this agreement?
4. How would one determine the future potential of diesel power?
5. Why do you believe the company failed to make provision for the amortization of patents prior to 1958?

EIGHT

Pricing

Bosporus — 38

ANALYZING A BREAK-EVEN POINT

The Bosporus Company is a small specialty manufacturer located on the Pacific Coast. For the past several years, sales have been decreasing and the plant is now operating at 75 per cent of capacity.

In evaluating its cost structure, the information in Schedule I was presented by the chief cost accountant.

Schedule I

Cost per unit at various levels of output

Expenses	50%	75%	100%
General overhead	$25,000	$25,000	$25,000
Factory overhead	11,000	12,000	13,000
Direct costs	25,000	32,000	39,000
Total costs	$61,000	$69,000	$77,000

Units produced	10,000	15,000	20,000
Unit cost	$ 6.10	$ 4.60	$ 3.85
Unit revenue	5.00	5.00	5.00
Total revenue	$50,000	$75,000	$100,000
Excess or (loss)	($11,000)	$ 6,000	$ 23,000

At the time of this analysis, Bosporus received a request for 5,000 items from a large chain organization. The chain offered to pay $4.50 per unit and asked to have the brand name of the chain placed on the item.

QUESTIONS

1. Determine what the break-even point of the Bosporus Company is.
2. What are some of the problems Bosporus might face if it accepted the order?
3. How much excess would Bosporus receive if it accepted the order?
4. Should Bosporus accept the order? Why or why not?

Ceres Manufacturing Company — 39

ANALYZING REDUCTION OF CASH DISCOUNTS

The Ceres Manufacturing Company, a leading food manufacturer, processes a group of wheat products used throughout the United States. It was founded shortly after the War Between the States and enjoyed a steady and continual growth to its present position of preeminence within its industry. Management, although basically conservative, has exhibited a willingness to change with the times by adopting improved manufacturing techniques and marketing procedures.

The Ceres Company markets its products through some 2,500 wholesale grocery concerns located throughout the United States. The job of selling to these wholesale concerns is the responsibility of 15 district sales managers assigned to territorial divisions adopted by the company largely on the basis of population density.

Seventy-five retail salesmen assist the district sales managers. These retail salesmen perform very little direct selling per se. Rather, their main duties involve arranging for prominent displays in as many retail food stores as possible and checking upon the condition of stock in these stores. If an out-of-stock condition is found, the retail sales-

man sells enough merchandise from his car to restock the store. This transaction is credited to the account of the wholesaler with whom the retailer customarily deals, and the profit accrues to the wholesale firm.

This organization has proved adequate to obtain an almost complete representation in retail outlets. Such a desirable situation was not obtained solely through the efforts of salesmen. Quality standards have been exceptionally high, and the advertising program has been well conceived. Furthermore, the firm has earned a widespread reputation in the grocery trade for fair business dealing.

The company allowed a 2 per cent discount to wholesalers for payment of their bills within 10 days of the invoice date, but in recent years leading competitors gave the wholesalers a 1 per cent cash discount under the same conditions. Consequently, management discussed the desirability of reducing the cash discount to 1 per cent, but no acceptable decision was reached prior to this spring.

The cash discount question faced management again this spring in connection with a meeting to discuss the advisability of a price reduction for the company's products. Wheat prices had declined considerably, giving rise to pressure for lower prices for products manufactured from wheat. As a matter of fact, the benefit of lower wheat prices was offset to a considerable degree by an increase in wages and other costs. Thus, lower prices would result in a reduction of net profit.

The treasurer of the company suggested that it would be most timely to reduce the cash discount to 1 per cent at the time of the contemplated price reduction. Since over 97 per cent of sales were discounted promptly, it was obvious that the company's gross profit would be increased by almost 1 per cent relative to total sales, all other things being equal. Moreover, he contended that a 2 per cent cash discount was archaic in view of the great decline of interest rates since the 1920's when the rate of 2 per cent was first established.

To support his views further, the treasurer argued that the consumer would be the ultimate beneficiary of a reduction in cash discounts. This consumer consideration, he pointed out, would be consistent with the policy of the company throughout its entire business existence. Also, he reported that experience at the wholesale level indicated almost equal support for competitive products sold at a 1 per cent rather than a 2 per cent cash discount.

At this point, the sales manager raised certain objections to the

proposal of the treasurer. He reminded management of the highly competitive situation within the wholesale grocery trade. This competition results in very low gross margins and, as a consequence, cash discounts assume great significance from the profit standpoint. In practice, however, he admitted that cash discounts were not passed along to the consumer but were entered directly into the discounts received account of the wholesaler. Often, the amount of this account represented a very large portion of a wholesale grocer's net profit.

In summary, the sales manager contended that a reduction of the cash discount would result in a certain loss of goodwill in the wholesale trade. With a buyer's market near at hand, he stated that the company should not hazard the loss of goodwill among its wholesale grocery trade.

Following further discussion, the general manager advanced his views in support of the treasurer. Loss of goodwill, he said, was an intangible factor and would be confined to the wholesale trade. Wholesalers, he said, realize that the well-distributed products of the Ceres Company meet with a widespread demand constantly stimulated by a hard-hitting advertising and merchandising program. Such products have a rapid turnover and yield the most certain profit for the wholesaler with a minimum risk of capital. Therefore, he predicted that wholesalers would continue to support aggressively the products of the Ceres Company in the event of a reduction of the cash discount.

QUESTIONS

1. Should the Ceres Company reduce its cash discount to wholesale grocers from 2 per cent to 1 per cent?
2. In the sale of consumer products, how much additional promotion would you expect a wholesaler to give a manufacturer that grants larger discounts?
3. Would the manufacturer or the wholesaler be more likely to pass on to the consumer any savings or discount? Why?
4. Do you anticipate that the Ceres Company would lose much goodwill by reducing its cash discount?

The Grayson Hotel — 40

PRICING POLICY FOR DINING ROOM

Throughout its fifty-year existence, the Grayson Hotel enjoyed a fine reputation as a comfortable, clean, and hospitable hotel. Even

today, it is filled with a warm, friendly atmosphere. Constructed during the Spanish War days, it lacked nothing then known to builders and hotel men.

Housing 287 rooms, this twelve-story building contained two dining rooms, the Colonial Restaurant and the Captain's Corner, and a cocktail lounge. The Colonial Room, a charming eating place, was furnished with maple tables and chairs and featured a colonial atmosphere and a fireplace. The Captain's Corner was the outgrowth of a demand for a separate dining room for men at luncheon time. Its walls were covered with cartoons of the celebrities of the metropolitan area.

Because the present-day clientele of the hotel was made up of middle-class transients and shoppers of moderate circumstances, it was almost mandatory for the hotel management to feature popular prices.

During the latter part of 1957, the hotel was sold to a group of investors, after having been owned and managed by the same people for over 25 years. The new operators continued operating the hotel under the old management's system until October, 1958; then, seeking to increase food sales and volume, they changed its menu and price policy to an *a-la-carte* basis.

Prior to the change from the standard menu price policy, the price of the luncheon entree included soup, dessert, and a beverage; the price of the dinner entree included the entire meal without an extra charge for soup and dessert. Under the old system of pricing, food sales and the number of covers increased about 3 per cent from 1957 to October, 1958, but this was offset by increased food and labor costs. Following the adoption of the a-la-carte method of pricing, food sale schedules from November, 1958, to March, 1959, showed a decrease in the total cover sales, but the average cover or the average size of food check was about 15 cents greater. This was due to the extra charges for desserts and beverages. See Schedule I.

Whereas the average cover or size of check increased, the food cost percentage per month fluctuated unevenly, depending upon purchases made during the month as well as the gross sales. This percentage was obtained by adding current purchases to the preceding month's inventory menus, the inventory for the current month, steward sales (made at no profit), and cost of employees' meals figured at 75 cents a meal and dividing by the gross sales for the current month.

Attention was also focused upon labor costs involved in the preparation and sale of food. The direct kitchen labor costs included salaries and wages for the chef, first and second cooks, the steward, assistant cooks, and pot and dish washers. In the dining room, general labor costs included wages and salaries for hostesses, waitresses, and busboys. The size of the payroll for these two divisions varied according to the number of weeks in the monthly payroll as well as the number of accrued days of labor costs. Because labor costs were increasing (see Schedule II), the work schedule was rearranged during April, 1959. It was felt that both direct and indirect labor costs would be materially reduced. Some saving should be realized because of the release of two kitchen employees and two hostesses.

In passing, it may be stated that the a-la-carte system was put into practice over the objections of the chef, steward, auditor, and the general manager of the hotel, who felt that such a move was a wrong one; they believed that the loss of volume through the decrease in total covers would not be offset by the increase in the average size of the check. However, the operators of the hotel insisted upon adopting the new price policy because they felt that the cost percentage would be lowered due to the anticipated increase in the sales volume.

Schedule I

Grayson Hotel

Schedule of food sales for 1958-1959

Date	*Food sales*	*Number of covers*	*Food cost percentage*
January, 1958	$13,193.73	13,292	43.2
February	12,232.71	13,134	33.7
March	14,840.22	15,139	42.3
April	15,911.66	16,936	33.7
May	15,502.15	16,558	39.7
June	15,302.85	15,935	45.8
July	13,266.57	13,284	44.8
August	14,572.02	15,053	43.5
September	15,091.21	15,471	43.6
October	15,697.03	16,295	44.8
November	15,022.97	14,233	47.2
December	15,481.87	14,100	41.9
January, 1959	12,601.56	12,213	41.0
February	11,246.96	11,007	43.7
March	11,787.75	11,100	42.3

Schedule II

Grayson Hotel

Schedule of labor costs for food preparation and sales

Date	*Food kitchen direct*	*Dining room general*	*Total labor cost*
January, 1958	$3,064.65	$1,514.27	$4,578.92
February	2,743.24	1,176.93	3,920.17
March	3,295.72	1,699.59	4,995.31
April	3,385.24	1,789.41	5,174.65
May	3,435.32	1,861.11	5,296.43
June	3,261.75	1,716.08	4,977.83
July	3,024.43	1,431.56	4,455.99
August	3,385.54	1,710.44	5,095.98
September	3,224.59	1,939.64	5,164.23
October	3,482.45	2,220.50	5,702.95
November	3,392.78	2,212.29	5,705.07
December	3,879.67	2,852.84	6,732.51
January, 1959	3,579.06	2,270.62	5,849.68
February	3,428.44	2,283.71	5,712.15
March	3,702.76	2,381.98	6,084.74

QUESTIONS

1. What method of food pricing would you recommend for a hotel of this kind?
2. How important do you believe the shifting to the a-la-carte basis is in the decrease in food sales? What might have been other important contributing factors?
3. What important economic principle should guide a hotel in establishing a pricing policy for its dining room?
4. How large a margin of profit should a hotel seek on its dining room operation?

Kadesh Company — 41

DECIDING ON A PRICE

The Kadesh Company manufactures a television set which sells for $250.00. An increase of 10 per cent in cost of materials and 5 per cent in cost of labor has gone into effect.

What should the new sales price be for the television set if the company decides that it must maintain its present margin of 60 per cent of sales, and material costs have been 50 per cent of cost of sales, labor costs have been 35 per cent of cost of sales, and overhead has been 15 per cent of cost of sales?

QUESTIONS

1. What method should the Kadesh Company use in selecting a sales price?
2. What sales price should be set for the product?

De Luxe Company — 42

SELLING BELOW COST

The De Luxe Company manufactures a specialty line of package candy that it distributes to 50 wholesale accounts in 50 midwestern states. The wholesalers in turn distribute the candy to large retail stores, confectionery stores, drug stores, grocery stores, and specialty stores.

All the package candy is sold under the brand name "De Luxe" and, within the market in which the company sells, its candy is considered in the same competitive class as Whitman's. Sales of the company average about $750,000 per year with the peak periods at Christmas, Easter, and Mother's Day. Beginning in the latter part of May, sales fall rapidly and do not begin to pick up again until September.

During the months of June, July, August, and September the company maintains only a skeleton crew and operates at about 20 per cent of capacity. In May, 1959, a buyer of a large chain store approached the sales manager of the De Luxe Company and offered to buy 300,000 pounds of package candy at 65¢ per pound. Delivery of the candy could be made during the summer months and would be packaged under the brand name of the chain store.

At that time, competition in the candy industry was very severe. The candy industry had been in a declining market both as to sales

and selling prices, and manufacturers had been pricing their lines of candy at so low a point that it was difficult for many companies to make a profit.

The De Luxe Company, however, made a net profit of $15,000 in 1958 with a sales volume of $761,000. Although sales in 1959 were running about 1 per cent below the 1958 level, the company executives believed that because of some savings in labor costs, it would be possible to earn about the same profit in 1959.

The candy was sold in the retail market at about $1.25 a pound. All boxes were marked with the retail prices, and the retailers generally sold the merchandise at the price on the box. The wholesalers paid De Luxe 75¢ per pound and because of the narrow margin on the candy were not granted any discounts. The wholesalers handled the entire distribution of the candy because De Luxe had always refused to sell direct to any retail outlet.

In manufacturing a pound of the kind of candy that the chain store buyer wanted to purchase, the company figured its cost as follows:

Direct material and labor	$0.62
General administration and overhead	.09
Selling and advertising	.025
Total cost	$0.735

The controller estimated that when the candy was sold at 75¢ to the wholesaler De Luxe netted about 1½¢ per pound. In analyzing the order from the chain store, the controller gave the following data:

300,000 pounds of candy @ 65¢	$195,000.00
Less direct material and labor cost @ 62¢ per pound	186,000.00
Gross margin	$ 9,000.00

If the general administration and overhead rate of 9¢ per pound were charged against the order, the company would have to deduct $27,000 from the gross margin. This would mean that the company would lose about $18,000 if it accepted the order from the chain store.

On the other hand, the controller pointed out that since the firm had adequate capacity to manufacture the 300,000 pounds of candy during the summer months, De Luxe would actually make $9,000 on the order, as he did not believe that the overhead would change regardless of whether or not the order was accepted.

The sales manager indicated that as the candy would be packaged under the brand name of the chain store, De Luxe would not be guilty of any violation of the Robinson-Patman Act. Although some of the wholesalers might find out about the chain store buying candy from De Luxe, he did not believe that the company would lose too much goodwill.

Other reasons for accepting the order were considered. These included keeping the plant operating at a greater capacity and holding employees, securing other contracts from the chain store in the future, and the fact that if De Luxe did not manufacture the candy, some other candy manufacturer would probably accept the order.

QUESTIONS

1. Where a company has capacity that is not being used, is it sound economic policy to accept an order that will not cover both direct and indirect costs? Why or why not?
2. What are some of the problems that might develop if De Luxe accepted the order from the chain store?
3. Would the company be guilty of any price violations if it accepted the order?
4. Is the fact that the candy industry is a highly competitive one of significance to the executives in making their decision as to whether or not to accept the order?
5. Should De Luxe accept the order from the chain store?

Erwin Stamp Company — 43

Erwin Stamp Company is a small firm located in an eastern city. The company is faced with declining sales because of the competition of a new trading stamp which is backed by a large chain store organization.

Incorporated in December 1958, after extensive research to find the most satisfactory marketing area, the Erwin program gained almost immediate acceptance by enthusiastic merchants. Much of the success was due to the excellent sales promotion work done by Mr. J. Erwin, the company's president.

The estimated population of 250,000 living in the general trading area covered by Erwin stamps was serviced by approximately 1,500 businesses of sufficient variety to participate in a trading stamp program. Of this number, about 25 per cent were not considered as prospective users because they carried other trading stamps or used other promotional plans.

Among the essential facts pertinent to the running of the company were the following:

The stamps were purchased at a cost of 16¢ per 1,000 stamps. Books for saving stamps cost 2½¢ each.

One part-time auditor was employed to maintain the books. One salesman was employed full time at a fixed salary plus a percentage of his sales. One secretary was employed full time to handle all correspondence and to receive and process all redemptions of filled savings books for $3.00 from the merchants.

The plan worked as follows: pads of savings stamps (1,500 stamps per pad) were furnished to the dealer at a cost to the dealer of $15 per pad. The price included savings books plus advertising displays announcing that Store X carried Erwin stamps. One stamp was given out by the merchant for each 25¢ of cash sale made to a customer. Mr. Erwin believed that 25¢ was a better denomination since the savings book was less than one half the size of a 10-cent stamp book and required only 600 stamps for redemption instead of the more usual 1,500.

Erwin stamps were available in a variety of stores. The customer, upon purchasing $150 worth of goods in such stores (the amount necessary to fill one book), could redeem the book at any Erwin store for $3 in merchandise.

Advantages to stores that carried Erwin stamps were various.

(a) Once a customer began saving the stamps, there was great reluctance to shop elsewhere for fear of not being able to get the stamps. Stamps offered a two per cent savings to the customer on sales.

(b) Redemptions had to be made with a store giving the stamps. Such redemptions were of extra merchandise of a luxury nature that might not have been sold otherwise.

(c) Merchants were guaranteed that a competitor within a block radius would not be given the stamp.

(d) Names and addresses of savers were compiled from the redeemed books of stamps and were furnished to dealers for their direct mail advertising.

Since each pad of stamps sold to the dealer contained only enough stamps (1,500) for ten dollars in redemptions, a five dollar margin on each pad was used to cover all expenses of the company. The estimated cost to the merchants giving stamps was about three per cent of sales.

From its beginning, Erwin Stamp Company sales grew at a rapid pace. By late last year, sales totaled over 500 pads per month to over 300 retail outlets. However, early this year, competition developed in the form of a new trading stamp company financed and promoted by a large chain store firm.

The new stamp was used in approximately a 100 mile radius which included the Erwin Stamp area. The new stamps were of the 10¢ variety and were sold to all classes of merchants at a sliding cost figure of $8.00 to $11.50 per pad of 5,000 stamps, depending upon the using retailers' sales volumes. A total of 1,500 stamps was required to fill a book; the books could be redeemed only for merchandise available at special stores set up by the new company.

After an intensive introductory advertising and sales promotion campaign, the new stamp company signed up over 3,000 retail outlets. It seemed likely that the number would continue to increase.

To stop declining sales, Mr. Erwin offered double-premium stamp days, advertised to consumers and dealers, and sent special gifts of free stamps to regular savers.

These plans were ineffective and, by the middle of the year sales had fallen to fewer than 260 pads per month. Mr. Erwin now faced the problem of what to do next, since 200 pads per month marked the break-even point for the company.

QUESTIONS

1. What course of action should Mr. Erwin adopt? Why? Are there any other plans to stimulate falling stamp sales?
2. How important are trading stamps in attracting and keeping customers?
3. What factors influence a merchant to offer trading stamps?
4. Evaluate the kind of stamp offering that Mr. Erwin used. Compare this with the offerings of the national stamp companies.
5. How does a stamp program effect the prices that consumers pay for merchandise?

Vogue Handbag Company — 44

FACING PRICE COMPETITION

The Vogue Handbag Company, located in New York City, is engaged in manufacturing of ladies' pocketbooks. The company's products are distributed nationally under the trade name "Vogue" and retailed through specialty shops, department stores, and shoe stores. The leathers and skins used in the bags made by Vogue are all genuine calf, snake, lizard, or alligator. This use of genuine leather results in a large price spread for the same style bag made in different materials. The line retails from $20 to $200, depending upon the material and the style. Eighty per cent of the total sales is in the $20 to $50 range.

Four salesmen travel from headquarters in New York and make two trips during the spring and fall seasons to the larger buying centers within their territories. This enables Vogue to reach those retailers who do not come to the New York market, or who come only once a year.

Vogue bags are accepted as "high-style" products. This reputation has been maintained by a dynamic styling policy. In the spring of each year, the designer makes a trip to the fashion centers in Europe and studies the latest style trends. As a result, the new line introduced in the fall season is always highly styled and up to date.

After completing their regular end-of-season trip in the spring, the company salesmen submitted comments as to the condition of the market, and the price and type of products that would go well in the fall season. The sales manager summarized these comments by stating that the Vogue line was overpriced when compared with competitive lines. He believed that this price advantage had resulted in a low volume of sales. The sales manager felt that Vogue bags were too heavily built internally, with unnecessarily elaborate waddings, muslins, and papers. The excessive construction elements used to give the "right feeling" to the bag brought about a price that was too high. He pointed out that, when selling handbags, the important factors are price and style. He said that women do not buy handbags to last forever, and the present type of internal build-up was unnecessary. Since women rarely look beyond the outside appearance of a bag,

this executive suggested that it would be best to meet competition by using fewer internal materials, thereby making possible a lower schedule of prices.

The vice-president in charge of manufacturing stated that it is very difficult to compare values in handbags because competitors in this price range never manufacture comparable styles. Although price seemed paramount at the moment, he felt that the workmanship in the Vogue line was more detailed and usually better than the workmanship offered in competitive lines. This executive felt that arguments about the proper internal build-up of a bag were futile because this was primarily a matter of personal opinion. He pointed out that savings in materials and labor through use of fewer internal parts would usually result in insignificant reductions in selling price. Essentially, the price of a handbag is determined by its size, which affects the amount of leather used, and by its styling, which affects the amount of labor required.

This vice-president voiced the opinion that the sales force was not well enough versed in the quality selling points of each bag to be able to sell aggressively to retailers and to aid them in their merchandising programs. Considering that the product line was highly styled, he felt that more consumer advertising and particularly more trade advertising was necessary to establish the brand name as synonymous with high style and high quality. This executive recommended that the company maintain its high-style, high-quality, high-price line. He indicated that it would be better to meet price competition by introducing several simpler styles, and possibly by extending the company's retail price range to $10.

QUESTIONS

1. What action should the company take to meet price competition?
2. How important is it for a company like Vogue to limit its production to the high-style, high-quality, high-price line?
3. What is your opinion of the vice-president's recommendation to introduce several simpler styles at $10?
4. If such bags were introduced, would you sell them under the Vogue brand?
5. In establishing policy, how important should the comments of the salesmen as to the condition of the market be to management?

The Beauty Products Manufacturing Company — 45

PRICING UNDER A SYSTEM OF SPECIAL ALLOWANCES

The Beauty Products Manufacturing Company was established in 1923 to manufacture a medium-priced line of creams, lotions, nail polish, and lipsticks. By 1929, the company had grown to a size that placed it among the country's leading cosmetic manufacturers with an annual volume in that year of $27,000,000. During the period of 1930 to 1938, the company lost ground competitively as far as sales volume was concerned, largely because of the fact that it refused to lower prices on any of its standard merchandise. Its best known and highest volume items were a jar of cold cream and a lipstick that retailed at $1.50 and $1.00 respectively.

As was customary in the trade, the Beauty Products Manufacturing Company distributed about 80 per cent of its production to retailers so that maximum promotional emphasis could be secured. The balance of its sales were made through wholesalers. Promotional services given to retailers included P.M.'s and commissions to sales personnel, demonstrators, cooperative advertising, and window displays.

In 1945, in spite of wartime restrictions imposed on the company in the form of curtailed supplies of materials and equipment and a 20 per cent luxury tax, it was successful in regaining its relative position as third largest manufacturer, and in 1946 attained a volume of $33,000,000.

However, the company was faced with a decision regarding its price levels. Increased costs in recent years had made it increasingly difficult to maintain prices and still derive a profit. So far, increased volume had made a profitable operation possible. With the 1947 volume leveling off, the company expected to find it difficult to hold the unit volume it had reached in 1946.

One important event in 1946 forced the company to review its policies of distribution and pricing. The passage of the Robinson-Patman Act in 1936 had the effect of standardizing the giving of promotional allowances and making them ". . . available in proportionately equal terms to all customers competing in the distribution of such products and commodities." A Supreme Court decision handed down late in 1946, after years of litigation by the Federal Trade

Commission against another cosmetic manufacturer, made it illegal to supply demonstrators on the basis the Beauty Products Manufacturing Company had customarily used. The company had given some stores an allowance to cover the full salary of one or more full-time demonstrators and had refused to give such allowances to other outlets.

As far as some details of administration under the new ruling were concerned, certain points were not entirely clear. However, the following could not be denied:

1. To maintain the present amount of promotional assistance for the stores now getting the most help, and to give those not getting a like share a "proportionately equal" amount would mean an increase in costs.
2. Not to establish some such basis for setting up this assistance to all would be breaking the law.

In considering what action the company should take, there was difference of opinion among top executives. The promotion manager felt that the company should attempt to maintain its present amount of help to retailers. He pointed out that sales trends of recent years had been steadily upward and he thought it largely due to the fact that the company had taken advantage of every promotional opportunity.

The promotion manager indicated that price levels of all commodities had taken an upward surge in the past two or three years, and that it should be possible to raise the price of Beauty Products without destroying any of the goodwill that had been built by maintaining the 1938 price of the product. The promotion manager further pointed out that the company would be at a competitive disadvantage if it should eliminate the promotional emphasis of demonstrators if other companies did not discontinue using them.

The promotion manager, therefore, recommended that the company continue to offer all present promotional aids and offset the increases in costs by raising prices of the products.

The controller took the opposite viewpoint. He agreed that it would put the company at a competitive disadvantage to eliminate demonstrators if other companies did not. He believed, however, that the profits of the company had suffered year by year as costs rose. He also felt that the increase in demonstrator costs, provided all retailers are to benefit by a "proportionately equal" amount, would jeopardize profit of the company unless there was a price increase.

The controller emphasized that a change in the price level upon which the company built its reputation and goodwill would be very dangerous and might even lead to a loss of status in the trade. He further said that there was a good possibility price levels in evidence at that time were the result of inflation due to unnatural causes and that it was very likely that general prices would be adjusted downward.

Another point made by the controller was that he considered the promotional aids commonly given in the cosmetic field to be out of proportion with reasonable requirements for sound business operation. He said the company should take advantage of the natural opportunity offered by the legal aspects of the present situation and eliminate some, if not all, of the "frills."

In view of this line of reasoning, the controller recommended that the company maintain its present price levels, which had been in effect for over 20 years, and that it eliminate use of demonstrators as a promotional medium. He further recommended that the company review its other media to see if some reduction could be made in their use.

QUESTIONS

1. What should be the decision of the Beauty Products Manufacturing Company regarding the maintenance of its price levels?
2. Should the company discontinue giving special allowances to the retail outlets?
3. Do you agree with the controller that if allowances were granted on a "proportionally equal" basis, it would appreciably increase the distribution cost?
4. Would you say that the maintenance of the price level or the granting of promotional allowances is more important in the sale of Beauty Products?
5. How is it that the company could continue to make a profit and still sell its products at 1938 price levels?

Cucamonga Company — 46

CHOICE BETWEEN A GENERAL AND A ZONE PRICE INCREASE

The Cucamonga Company, located in Maine, manufactured paper towels and other paper specialties. The paper towels were marketed

under the trade name "Kuke." They were folded towels made for use in industrial plants, schools, office buildings, hospitals, and in other places where public washrooms required such a service.

Cucamonga Company sold Kuke towels in carload quantities to selected paper jobbers all over the country at the same carload price. These paper jobbers, or distributors sold them to the consumer in quantities of from one case to one or more carloads, with a discount according to the quantity purchased. A suggested resale price list was issued and followed in general all over the country.

Kuke towels had been fair traded, but the company had discontinued this policy in 1948. In certain large markets, competitors would bid one cent per case under the Kuke price. Since all competitors could get the suggested lists, there were no real advantages to Cucamonga Company in fair trading. All other advantages and disadvantages had been carefully weighed.

From 1930 the sale of towels had gradually increased. This rise followed the prevailing trend of industry and business in general. It was during this period that more thought was given to the health and welfare of employees and customers by the management of industrial firms, department stores, and others in the same category.

The war years still further increased sales in the industry. Allocation had been necessary to assure equitable distribution. The government had declared "paper towels" essential, and their production was continued, with restrictions, during the war.

By March, 1959, the company's sales were 25 per cent greater than in 1945. Cucamonga Company felt this was a combination of many factors. Increased manpower had played its part. There were additional distributors. There had been renewed advertising and promotional efforts. The people working in plants were used to paper towels and demanded them in their places of employment. All these factors had resulted in a general increase in demand for paper towels.

From the raw materials viewpoint Cucamonga Company's location was good; it was near the coast for foreign pulp and near the New England and Canadian producers.

The chief competitors were the "B" Company located in New York State, the "C" Company located in the Midwest, and the "D" Company situated on the West Coast. The Cucamonga and "B" companies sold nationally. Their prices on carloads to distributors were comparable. There was one price to the distributor regardless of location. Freight was allowed by the companies, but they reserved

the right to choose the route and mode of transportation. "C" Company, "D" Company, and all the smaller manufacturers sold on a zoning basis.

Cucamonga Company management felt that there was a possibility in the relatively near future that "B" Company would build a mill on the West Coast. This development would make "B's" position and "D's" position stronger than Cucamonga, especially in the West Coast market. Cucamonga Company had no plans to expand its present facilities.

Kuke sales amounted to $4 million in 1958. Seventy-five per cent of this volume was done in an area east of the Mississippi and north of the Ohio-Potomac River Line. Twenty per cent came from all other areas of the United States with the exception of the West Coast. The West Coast area included Washington, Oregon, and California. Five per cent of the business came from this area.

The market potential for folded towels was estimated to be $50 million. With the improvement of paper towels, new uses were constantly developing and this figure was revised.

Freight rates had increased to a point where the costs on West Coast shipments were running more than 50 cents per case. Manufacturing costs had risen steadily and action was needed to maintain profit margins.

The Cucamonga Company executives decided that a zoning system based on a geographical breakdown of volume should be studied. There were several zoning analyses made based on 1, 2, 3, 4, and 5 zones. However, the three-zone plan was considered the simplest and best.* Under this plan, three zones based on the volume and areas indicated previously would be established. The price would be maintained in Zone One. Zone Two would carry an increase of 20 cents per case. Zone Three would carry an additional charge of 30 cents per case. This would make the carload prices $5.00, $5.20, and $5.30 in Zones One, Two, and Three respectively. The suggested resale price in Zones Two and Three would be increased proportionately. The maximum increase in single case lots to the consumer on the West Coast would be 50 cents per case.

Another plan suggested was that the seven men who were working

* Zone One would include the New England States, New York, New Jersey, Pennsylvania, Maryland, Delaware, Virginia, West Virginia, Ohio, Indiana, Illinois, and Michigan. Zone Three would include Washington, Oregon, and California. Zone Two would include the remaining states.

in the areas designated as Zone Two and Zone Three be brought into Zone One. There was a need for smaller territories and more intensive selling in Zone One. The outlying business of Zones Two and Three could be carried on a mail order basis. Considerable savings would result because the company would have the chance to build business in profitable areas. However, without direct sales effort, it was probable that the business in Zones Two and Three would decrease proportionately as Zone One business increased.

If the zoning system were put into effect, there would be a $75,000 savings in freight costs. There was also a possibility that business could be retained in Zones Two and Three because prices would not be too much out of line with those of competitors. Since its quality was superior, the Cucamonga Company believed that the majority of business would be held in Zone Two, but felt there would be some difficulty in Zone Three with "B" and "D" companies. The only other alternative that was suggested was a general price increase.

QUESTIONS

1. Should the Cucamonga Company follow the suggested plan of an increase in the Zone prices?
2. What do you believe would be the effect of a general price increase?
3. To what extent can a company increase prices in Zones and still maintain its volume of business?
4. Would your answer be the same if Cucamonga maintained a monopolistic position in the market?

Imperial Company — 47

PROBLEMS OF PRICE AND DISTRIBUTION COSTS

The Imperial Company manufactures a superior line of beauty parlor products. The line includes three product divisions: "hot" and "cold wave" machineless hair-waving supplies, hair dyes and shampoos, and cosmetics. Principal sale is for professional use by beauty shops, and packaging is largely in bulk containers. Distribution is national through a selective, nonexclusive jobber system. The country is divided into 14 sales regions. A salesman in each region handles job-

ber contacts. In common with trade practice, the company employs a force of skilled women demonstrators working under the salesmen, who combine missionary sales work and product demonstration.

The jobber system is the basic form of distribution in the industry because of the great number, scattered location, and small size of beauty shops.

The company makes some use of missionary salesmen to assist in building up weak jobbers' territories. However, due to the high cost and the management's feeling that product demonstration is a more primary function, it makes less use of them than do certain competitors. The management also feels that their use encourages jobbers to shift the selling burden to the company. In practice, however, demonstrators' efforts have tended to expand to include more outright sales than missionary sales work.

Product demonstration is regarded as a key function, since most of the products work through chemical action, necessitating education of beauty operators in the selection of proper strength lotions for different types of hair, and instruction in the techniques of application. Also bulk packaging offers little opportunity for product differentiation because the products are not advertised to the general public. The consumer regards the operator as an authority on hair treatment, so that the operator can readily control the use of a brand according to personal preferences. Because different makes of supplies require different techniques, operators are inclined to use brands with which they are most familiar. Manufacturers must, therefore, engage in a constant program of demonstration to get the beauty operators to accept their products.

The Imperial Company's prices on all its lines are higher than those of its competitors. Cost of supplies to the shop is approximately 10 per cent of the consumer price. After jobber discounts and costs of special deals—extremely prevalent in the industry—the manufacturer is fortunate to gross 5 per cent. The industry and the individual manufacturer's potentials are, therefore, limited. The industry is exceedingly competitive, and few manufacturers have been able to support consumer advertising.

The president of the Imperial Company sought to find a reliable method to evaluate the real importance of the several links in the distribution chain (jobbers' salesmen, shop proprietor, shop operator, consumer) so that the company might select the most effective promotional method.

The company is divided into two completely separate and autonomous divisions: the manufacturing and private label division, and the sales division. This separation was made originally for tax reasons and to facilitate the manufacturing division's operation as a private label manufacturer. Everything has been done to maintain the operating and financial independence of the two divisions: Each has separate trade identity and management, and is individually responsible for financial results. Administrative offices of the manufacturing division are located in New York; the plant is in the Midwest. The sales division occupies separate offices in another part of New York. It duplicates, in some instances with even larger staffs, the offices of General Manager, Comptroller, Purchasing Agent (largely for packaging supplies purchases, which are controlled by the division), and Testing Department. Coordination is chiefly through the president, who spends one day a week at the sales division offices reviewing and directing affairs.

This separation in managements tends to act as a barrier to over-all economies, such as departmental consolidations, in the interest of the whole business. Thus, at low operating levels each division becomes a victim of its independence.

The company is faced with making an adjustment precipitated by a buyers' strike. Revenues are severely affected, and the market outlook is uncertain. The adjustment is further complicated by a sharp rise in selling and promotional costs.

The inequity of the present organization setup can be better appreciated when it is understood that the sales division is unable, on the present volume, to support a competent sales promotion manager, or to match competitors' advertising and promotional operations. Maintenance of a competitive level of sales pressure is axiomatic.

Private label sales are a small part of total company volume, and the company's success, therefore, hinges primarily upon that of the sales division. Opportunities for economies exist in elimination of duplicated functions and in relocation and consolidations of office and plant space. Initiation of drastic economies, if determined upon, must be made by the president, since the individual managements are not in position to propose such measures.

The background of the president is perhaps worth considering for its influence on the company's development. This executive holds an advanced scientific degree. Although exhibiting balanced managerial interests, he is perhaps primarily a scientist, with strong interests in

product development. A direct result is product superiority and insistence on high manufacturing standards. This has contributed to trade prestige and ability to secure premium prices; probably also to a more costly product than the run of the market requires—based on inferior product successes. Personal inclinations account for over-delegation of authority without a close enough check on results, accounting for certain past mistakes, and some neglect of the primary business of hard-headed production at ever-decreasing costs, making sales, and offsetting competitors' advances.

Interpretation of sales results for the wave line is complicated because the trend for high-grade waves has been approximately stationary since 1935-37, representing a loss relative to industry growth. Lower priced waves have shown a substantial increase, paralleling industry growth.

Hair dyes and cosmetics of the Imperial Company also show declining trends, in the face of industry growth. Total sales of all lines show a decline due to these dye and cosmetic line losses. The company is concerned because certain individual competitors in each of its fields are known to have greatly outstripped the company. These gains were made on a price basis.

Basically, the situation seems to be that the Imperial Company, through early leadership and quality development, was able to secure high prices. In the wave line, the policy continued to be successful during the depression through the company's bold advocacy of a consumer price maintenance policy, which, in turn, assisted shops in being able to pay a high price for supplies. This success apparently influenced the company in maintaining a high price policy on all lines, despite lack of an offsetting trading advantage. Declines in dye and cosmetics were presumably attributed to the depression at the time. Other influencing factors were that management was preoccupied with the wave line and failed to promote or meet the issues in the decline of the other lines. Also, the company was several times late in realizing the significance of several new product developments in the trade or in adapting itself to changes in consumer sales appeals, so that it lost important advantages in the case of several products. Competition was attracted that was able to undercut the company's whole position.

The lower price markets are, of course, the volume markets. Of all products, the company remains strong only in the high-priced wave field. Although this is a desirable market from a profit standpoint, it is a limited one. The stable sales trend for this item in face of industry

growth, moreover, suggests that it is being squeezed by lower prices. This business depends upon a small field of better class shops that continue to prefer quality materials regardless of price, and a miscellaneous group carrying the product for very occasional sale to high-price trade. The keystone of this business is the success of the price maintenance policy in securing higher consumer prices for the shops. A question is whether this policy will work as well in the future as it has in the past.

The wave line is now so far dominant that the company is forced to concentrate its efforts on it almost exclusively. In effect, policy is to maintain prices and skim whatever profits are possible from the dye and cosmetic lines to build up waves.

An index of company sales against a 1940-42 base average is given in Table I.

Table I

Year	*Hot and cold wave lines*	*Dye line*	*Cosmetic line*	*Total sales*
1940-42	100%	100%	100%	100%
1945	110	74	89	91
1946	118	74	99	95
1947	110	69	49	85
1948	151	69	51	103
1949	149	64	44	99
1950	118	50	84	82
1951	109	31	30	72
1952	145	39	37	91
1953	169	35	28	95

Note: The cosmetic line suffered a major decline prior to the period for which data are shown.

Distribution at the retail level is at present accomplished through selective "franchised" shops for the high-priced wave line, and through nonselective general distribution of lower priced waves, hair dyes, and cosmetics.

The selective franchise plan was developed early in the depression as a price maintenance measure. Fair trade laws were not in existence, and the beauty trade was beset by price cutting. Franchise agreements specified resale prices, with provision for cancellation for failure to maintain prices. Counter display cards featuring prices and other publicity were provided. The policy was highly successful and resulted in

much goodwill. The selective plan also contributed to the prestige of the higher priced wave line. During World War II, the continued use of the plan resulted in a higher price from the consumer.

The plan somewhat restricted sales operations. For example, it was possible to extend franchise to only about 10 per cent of the beauty shops in the United States. The company also hesitated to press its cheaper wave lines in these outlets for fear of undercutting the more profitable franchised waves, even though competitors sold the cheaper products to them.

A change in the jobber situation was also an important sales consideration. Due to wartime supply uncertainties, Imperial Company's exclusive jobbers were allowed to take on competitive lines that were lower in price. As a result, the jobbers' promotion of the company's own lower price lines, introduced after the war, were weakened. The jobbers refused to accept exclusive contracts with Imperial.

A further difficulty, due to bulk packaging, was the ease of substitution. Shop operators and proprietors can readily substitute cheaper competitive ingredients. Obstacles to packaging in individual application units are the variety of package combinations required, the low price of competing bulk supplies, and the lack of consumer brand preference. A trend to unit packaging, however, is becoming somewhat evident in the industry.

That the solution of the price problem cannot be attained by simply reducing price is attested to by reliable reports that several of the leading price competitors are at present in serious financial difficulties.

QUESTIONS

1. Should the Imperial Company continue to concentrate on the high-price wave market?
2. Would it be advisable for the company to make any changes in its handling of the dye and cosmetic lines?
3. What would be the result if the Imperial Company lowered its prices?
4. Should the company continue to sell through jobbers when they refuse to take exclusive franchises?
5. Would it be a sound policy to put greater effort into restoring the selective franchise plan with beauty shops at this time?

NINE

Product planning for distributors and dealers

The Jones Company — 48

USE OF OPEN-TO-BUY DATA

Miss Carlson was the buyer of the dinnerware department in the Jones Department Store. When she had been with the organization for a year, the management told her that they wanted her to raise the level of the department by obtaining new popular lines and to stimulate sales through a well-rounded promotional program on the best new items.

Because Miss Carlson had been a dinnerware buyer for many years, she used her knowledge to good advantage and did obtain new lines

that, with the promotional program, gave the department a substantial sales increase, as indicated by the departmental statement for dinnerware (Schedule I) for the month of October.

During early November, Miss Carlson had an opportunity to add a new line, which would give her the assortment needed, but it meant the immediate placing of initial orders totaling $6,000 at retail. In looking at the October 31 Open-to-Buy report (Schedule II), she recognized that she had committed herself for the Christmas Season and was overbought for November, December, and January. She felt that this was caused by her stock being planned too low.

She was convinced, however, that the addition of the new line was important and would allow her additional volume. She discussed the problem with the merchandise manager, who also felt that, although the department would be in a considerably overbought condition, the benefits would be substantial; therefore, he instructed her to prepare the orders.

After Miss Carlson had prepared the orders and signed them, she forwarded them to the merchandise manager for his signature.

The order procedure in the Jones Store required that the final confirmation be made by the general manager or, in his absence, by the controller. At this time, Mr. Kilpatrick, the general manager, was in the East on business and was not expected back until the 18th of the month; therefore, the merchandise manager forwarded Miss Carlson's orders to Mr. Johnson, the controller, for his approval.

After reviewing the current Open-to-Receive (Schedule III) and the Open-to-Buy reports, and the Departmental statement, Mr. Johnson called Miss Carlson and the merchandise manager to his office and told them that he could not approve the orders. He said that, although the department was accomplishing the goal set for it as far as sales were concerned, the stock position was greatly out of line; unless a substantial sales increase occurred in November and December, there was no chance of arriving at the planned stock of January 31, as shown on the Merchandise Plans (Schedule IV).

He told them that holding the inventory in line was of major importance, and unless it was controlled it would mean a substantial loss to the department in markdowns. He suggested that they concentrate on moving the slow lines, which apparently were glutting the stock, and hold any further addition of lines until the stock was in a much more favorable position.

SCHEDULE I

DEPARTMENT STATEMENT

STORE The Jones Company

(Dollars Shown to Nearest $) DEPT. NAME Dinnerware MONTH October DEPT. NO. 259

PLAN		ITEM	MONTH				YEAR TO DATE			
			THIS YEAR		LAST YEAR		THIS YEAR		LAST YEAR	
			AMOUNT	%	AMOUNT	%	AMOUNT	%	AMOUNT	%
	1	Net Sales & % Change	7193	46.3	4918	1.1	52665	11.1	47421	.5
	2	% To Consol. Total*	—	—	—	—		1.6		1.5
	3	Inventory-Retail Feb. 1st.*	—	—	—	—	35800		28950	
	4	Purchases-Retail & % Markup	11832	45.0	5588	48.2	108021	44.3	82073	46.2
	5	Inventory-Cost Feb. 1st.*	—	—	—	—	21480		17370	
	6	Purchases-Cost	6108	54.9	2897	51.8	58835		43015	
	6A	Mdse. Transp. & % Cost Purchases	392	6.4	160	5.5	1358	2.3	1120	2.8
	6C	Total Cost (Feb. 1st Inv.+Transp.+Purchs)	—	—	—	—	60193	55.7	44135	53.8
	7	Markdowns-Retail	942	13.1	45	.9	3434	6.5	2505	5.8
	8	Employee Discounts-Retail	57	.8	34	.7	479	.5	2371	.5
	9	Shrinkage-Retail								
	10	Total Retail Deducs. (1+7+8+9)	8192		5037		56900		49688	
	11	Inventory-E.O.M.-Retail*	—	—	—	—	51121		32385	
	12	Outstand. Orders-E.O.M.-Retail*	—	—	—	—	11100		8200	
	13	Total Commitm'ts-E.O.M.-Retail*	—	—	—	—	62221		40585	
	14	Inventory-E.O.M.-Cost*	—	—	—	—	28485		17413	
	15	Cost of Mdse. Sold	4652	64.7	2648	53.8	31708	60.3	26721	56.3
	16	Workrooms-Profit or Loss	—		—		—		—	
	17	Gross Margin (1-15±16)	2541	35.3	2269	46.1	20957	39.8	20699	43.6
	18	Cash Discount & % To Cost Purchases	82	1.3	34	.6	297	.5	196	.4
	19	Gross Mdse. Profit (17+18)	2623	36.6	2303	46.7	21254	40.3	20895	44.1
	20	Selling Salaries	628	8.7	379	7.7	4402	8.4	3639	7.7
	21	Stock Clerk Salaries	128	1.8	57	1.2	1361	2.6	1595	3.4
	22	Buying Salaries	244	3.1	177	3.6	2438	4.6	1822	3.8
	23	Newspaper Advertising	202	2.8	164	3.3	1715	3.3	2412	5.1
	24	Mfg. Adv. Allowance-Credit	--				244	.5	442	.9
	25	Direct Mail Advertising								
	26	Window & Sign Expense								
	27	Travel Expense	--		5	.1	14	.3	500	1.1
	28	Delivery Expense	109	1.5	82	1.1	761	1.4	652	1.4
	29	Total Direct Expense	1291	17.9	864	17.6	10447	19.8	10291	21.7
	30	Total Indirect Expense	1501	20.9	1330	27.0	11420	21.7	11870	25.0
	31	Total Expense	2797	38.9	2197	44.6	21867	41.5	22161	46.7
	32	Operating Profit	(174)	(2.4)	109	2.2	(613)	(1.2)	(1266)	(2.7)
	33	Average Sale	6.91		6.85		5.94		5.80	
	34	Transactions-Gross	1108		719		7233		8176	
	35	Returns & % Gross Sales	462	60	392	7.4	2149	3.7	1920	4.0
	36	Turnover Rate*	—	—	—	—	1.10		1.6	
	36A	Stock Sales Ratio*	—	—	—	—	7.6		6.5	
	37	Net Sales % to Total Store*	—	—	—	—	1.65		1.55	
	38	No. of Pkgs. Delv'd & % Gross Trans.	200	18.0	130	18.1	2256	24.4	1500	18.0
	39	Sales Per Sq. Foot-Spring Season*	—	—	—	—	14.40		12.00	
	39A	Sales Per Sq. Foot-Year*	—	—	—	—	21.00		19.00	
	40	Inv. Plus Unchg'd Pur.-Retail Feb. 1st*	—	—	—	—	41800		34190	
	40A	Inv. Plus Unchg'd Pur.-Retail E.O.M.*	—	—	—	—	58521		36590	

* Leave Month Columns Blank

SCHEDULE II

OPEN TO BUY REPORT THRU November 30 MERCHANDISE DIVISION Home Furnishings ENDING October 31, 19 55

DEPT NO	YEAR TO DATE SALES		SALES				EST SALES BAL OF MONTH	MARKDOWNS		STOCK				MARKUP %			DEPT NO	O T B	OUTSTANDING ORDERS				FUTURE O T B		FUTURE ORDERS
	END OF LAST MONTH		PLANNED SECOND FUTURE MONTH	PLANNED NEXT MONTH	PLANNED THIS MONTH	THIS YEAR MONTH TO DATE		MONTH TO DATE $	YR TO 1ST OF MONTH $	STOCK FIRST OF MONTH	STOCK ON HAND TODAY (10+14)-(6+8)	PLANNED STOCK	PLANNED STOCK	PURCHASES MONTH TO DATE	MONTH TO DATE	YR TO 1ST OF MONTH	BUDG ETED		OPEN TO BUY TO	PAST DUE TO DATE	CURRENT THIS MONTH	NEXT MONTH	SECOND FUTURE MONTH	THIRD FUTURE MONTH	NEXT MONTH	SECOND FUTURE MONTH	
	THIS YEAR	LAST YEAR																								
	Sept. 30	Sept. 30	Dec.	Nov.	Oct.	Oct. 31		Oct. 31	Oct. 1	Oct. 1	Oct. 31	Oct.	Nov.	Oct. 31	Oct. 31	Oct 1	Yr.		Nov. 30	Oct. 31	Nov.	Dec.	Jan.	Feb.	Dec.	Jan.	
	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17		18	19	20	21	22	23	24	25	26
255	45 3	42 5	17 0	9 0	6 0	7 2		0 9	5.48	54 7	62 4	51 0	51 0	15 8	47.7	45.9	46.2	255	(16 3)	0 5	13 4	9 3			(8 6)	(5 6)	
TOTAL																											

ALL FIGURES AT RETAIL TO NEAREST HUNDRED

SCHEDULE III

*DO NOT EXCEED THE OPEN-TO-RECEIVE LIMIT IN ANY GIVEN MONTH

	MONTH November		MONTH December		MONTH January	
	DATE	DATE REVISED	DATE	DATE REVISED	DATE	DATE REVISED
ON HAND	62,400		67,300		59,600	
PAST DUE	500		—		—	
ON ORDER	13,400		9,300		—	
TOTAL OBLIGATION	76,300		76,600		59,600	
LESS SALES	9,000		17,000		6,000	
EOM ESTIMATED STOCK	67,300		59,600		53,600	
EOM PLANNED STOCK	51,000		51,000		48,000	
* OPEN TO RECEIVE	(16,300)		(8,600)		(5,600)	

MEMORANDUM	DATE	ORDER NUMBERS	AMOUNT PURCHASED	BALANCE O.T RECEIVE	MEMORANDUM	DATE	ORDER NUMBERS	AMOUNT PURCHASED	BALANCE O.T RECEIVE	MEMORANDUM	DATE	ORDER NUMBERS	AMOUNT PURCHASED	BALANCE O.T RECEIVE
	11/2	43592	500	(16800)										

DEPT. 255 OPEN TO RECEIVE LIMITS DATE Oct. 31, 1953

SCHEDULE IV
THE JONES COMPANY

RETAIL MERCHANDISE BUDGET FORECAST

SEASON OBJECTIVES: M.U. % 46.2; M D. % 5.5; Turnover .9

STORE _____

DEPT. ANNUAL VOL. TO STORE: Goal 1.75; L.Y. 1.6

DEPT. NO. 255 NAME Dinnerware

YEAR 1954

Show figures to nearest hundreds

	FEB.	MARCH	APRIL	MAY	JUNE	JULY	TOTAL 6 MOS.	AUG.	SEPT.	OCT.	NOV.	DEC	JAN.	TOTAL 6 MOS.	TOTAL YEAR	FEB.
Actual						RETAIL SALES										
Revise																
Plan 53	65	50	50	55	65	60	345	60	45	55	85	160	55	460	805	65
L.Y.	61	47	48	51	64	54	325	62	39	49	67	125	52	394	719	
19 51	50	51	59	48	56	56	320	55	39	54	81	147	45	421	741	61
Actual						STOCK FIRST OF MONTH								FALL SEASON TURNOVER	YEAR TURNOVER	
Revise						SPRING SEASON TURNOVER										
Plan 53	390	345	345	368	390	360	.944	450	450	450	450	450	450	102	111	480
LY	340	366	377	415	414	396	.837	469	330	323	342	309	356	197	194	394
1951	275	277	303	310	336	309	1.058	303	309	301	392	350	331	127	233	340
Actual						STOCK SALES RATIO										
Revise																
Plan 53	60	69	69	67	60	60		600	100	82	53	28	82			74
Actual						PURCHASES										
Revise																
Plan 53	20	50	73	77	35	60	315	60	45	55	85	160	85	490		
LY	92	62	91	52	51	52	400	75	33	68	34	174	95	329		
19 51	59	85	77	77	36	59	393	55	35	151	49	132	63	490		
Actual						ACTUAL MARKUP										
LY	414	489	443	479	433	477		424	428	482	379	455	443		456	445
Actual						MARKDOWNS										
Estimated	04	03	02	03	04	03	19	02	02	03	04	06	05	22	39	
LY	04	04	04	03	04	04	23	01	01	00	00	01	04	07	30	

QUESTIONS

1. How do you account for the fact that, although October sales in the dinnerware department increased 46 per cent over the prior year, the department operated at a 2.4 per cent loss?
2. What is the significance of an open-to-buy report? How can it be used most effectively?
3. What is the purpose of making a retail merchandise budget?
4. From the information given, what would you say were the chief weaknesses in the dinnerware department?
5. Did Mr. Johnson, the controller, act wisely in refusing to approve the orders?
6. Would you recommend that the controller develop any additional data for the department?

The Merry Mart — 49

DECIDING ON THE POLICY FOR AN INDEPENDENT STORE

The Merry Mart, a Juvenile Department Store, is located on the outskirts of a major shopping area. The store was opened in 1950, and because of its location, it was able to secure a good selection of the national brands of merchandise. Each year the sales of the store continued to increase, so that by 1959 the sales volume was about two and a half times greater than it had been in 1950.

The store handled only one make of shoes, the nationally advertised Buster Brown brand. However, for some time, Mr. Poe and his partner had been receiving a great many requests from their customers for a cheaper shoe. The partners checked the suppliers very carefully and found only one manufacturer who was turning out a lower price shoe of the quality they were willing to sell. This manufacturer did not do any advertising and sold primarily to large purchasers who sold under their own labels.

Unlike the large department store or chain outlet, the small independent retailer is much concerned with national brand merchandise. The chains and large stores are in a position to develop sufficient prestige of their own to secure public acceptance of the merchandise they sell. In fact, brand manufacturers will compete with each other to place their products with these stores.

The rapid growth of our suburban population in the last 10 years, the substitution of the private automobile for public transportation, and the high cost rentals of central business districts have stimulated the spread of the type of retailer heretofore confined to Main Street into many outlying shopping districts. These retailers, in contrast to the exclusive specialty shop with its high-margin operation, are after high-volume, fast-moving, popular-priced, moderate-markup, and substantial-inventory merchandise. The successful operation of these stores depends in large measure on their ability to secure popular brands of merchandise.

When the Merry Mart was opening its shoe department, the partners decided on handling Buster Brown shoes for the following reasons:

1. *Potential volume.* If more Buster Brown shoes are sold in the United States than any other brand, then the Merry Mart should be able to sell more of this brand than any other brand that could be secured.

2. *Popular or budget priced.* The Merry Mart must be careful about handling low-priced merchandise. The chain stores, with their large purchasing power, can outbuy the Merry Mart on low-priced goods. Neither can the Merry Mart hope to build volume in a limited trading area of residents with moderate incomes if the store attempts to sell a high-priced shoe. The store must plan to sell a medium-priced shoe.

3. *Quality and guarantee.* The independent retailer must stand behind the goods he sells. The brand selected must prove its advertised worth, and its quality must warrant the building of customer loyalty.

4. *Eye or style appeal.* There are brands that have good customer acceptance but lack progressive designing. One of the other national brands offered to the Merry Mart excelled Buster Brown in styling but did not measure up in quality.

5. *Protection against competition.* There is really no advantage to building up consumer acceptance of a brand unless the Merry Mart will be protected from unfair competition. The store must get an exclusive right to the brand in its trading area, and the price on the shoe should be set for all the merchants in the vicinity regardless of the volume they may sell.

Not only in the shoe department, but in all the other departments, the partners limited their merchandise to one brand. Only under the following circumstances did they carry more than one brand:

1. Ample style selection could not be provided by one brand.

2. The brand selected was limited to a few special types of products within the line.

All products were in the moderate price range, except in a few cases where the top quality brand was only 15 per cent to 20 per cent more expensive. The difference in value to the customer in style and fit was so great as to make the price difference insignificant.

If the partners decided to sell the cheaper shoes, they would be changing their basic merchandising policies. In adding this shoe to their shoe department, they would be in direct competition with the chain stores and large department stores. Furthermore, they were worried that their regular customers might substitute the lower-priced shoes for Buster Brown products. They realized, however, that they were losing a number of customers every day because they did not have a cheaper shoe to offer.

QUESTIONS

1. When would it be advisable for a small independent store to carry products in all price ranges?
2. What determines the number of brands in any line that an independent merchant should handle?
3. When should a store handling medium-priced goods also carry a low-priced line?
4. Evaluate the points that the Merry Mart used in selecting its brands. Are there any others that you would add?
5. How important do you believe national brands and fair trading are to the success of these small stores?
6. Should the Merry Mart add the cheaper shoes to its shoe department?

Apex Hardware Company — 50

DECIDING TO HANDLE A NEW PRODUCT LINE

Apex Hardware Company, a full-service wholesaler, sold and distributed tools, builders' hardware, and a general line of shelf hardware, plumbing, and electrical specialties to the retail hardware and small mill supply trade. It distributed its merchandise to some 200 accounts, and had a gross business of approximately $200,000 annually. It had

expanded its business by constantly adding new lines in its field and giving price, service, and quick delivery to its customers.

The eastern district sales manager of a nationally advertised rubber-based paint, Dutton, suggested to the company president that Apex carry this line. He pointed out that this paint was an established brand, that every larger jobber in the field carried the line, and that his company constantly used national advertising directed at the consumer.

The shipments made to Apex would involve the following considerations:

1. The initial order must total $1,000, and all repeat orders must be the same amount to gain the minimum jobber's discount of 15 per cent.
2. To receive an additional discount of 5 per cent, Apex would have to purchase $3,000 carload lots at a time.
3. The fair-traded retail price of $4.49 a gallon would be guaranteed in the original contract for at least 6 months after delivery of the initial order.

The president asked for two weeks to study the product and to decide on the feasibility of taking on the line. With two of his salesmen, he devised a set of questions for the firm's customers, which, when answered, would help solve the problem whether or not to take on the proposed product.

The salesmen brought in the following answers to the questionnaire:

Questions	*Answers*
1. Do you carry Dutton paint?	153 out of 200 carry the brand.
2. What is the average quantity of Dutton paint you carry in terms of dollars and cents?	Average—$300.
3. How many times a year do you turn over this stock?	Average—Twice a year.
4. How many jobbers from whom you buy carry this line?	Average—Ten.
5. Do you buy Dutton paint from one jobber solely, or any one of several?	Fifteen out of 153 bought from one jobber exclusively.
6. Does every jobber sell at the same price?	Yes.

These answers crystallized several conclusions for the president.

1. Since 138 of the accounts carrying the line would buy from any

of the jobbers calling upon them, total of approximately $80,000 of Dutton paint sales was available for solicitation.

2. Because an average of ten jobbers calling on these accounts carried Dutton paint, Apex could expect approximately $10,000 annually of Dutton business if Apex customers would divide their buying equally.

There were other considerations involved, however. One of the salesmen reported that many of Apex's customers preferred to buy their large seasonal orders from paint sundry jobbers and used hardware jobbers only to fill in on short colors. Also, a number of Apex's customers had been decreasing the size of their inventories and, in some instances, were beginning to mix their own paints.

Warehousing and trucking considerations entered into the problem. To carry a $3,000 stock would entail use of the entire second floor of Apex's small warehouse, and shipping in appreciable quantities would tax the capacity of the small truck used for delivery.

On the credit side, the sales job was essentially simple, once the salesmen learned the various colors. Because Dutton was nationally advertised, it was a call product and needed no specialized sales acumen on the part of either the wholesaler or the retailer. Another one of its advantages was that it posed no packaging problem for Apex because it came packed in cardboard cartons, four cans to a carton, and was shipped to the retailer in the same container.

QUESTIONS

1. Should Apex Hardware Company handle the Dutton line?
2. If Apex does decide to take on the line, should it order it in $1,000 or $3,000 lots?
3. How important is the fact that a number of the hardware stores were decreasing the size of their inventories?
4. What would have been your recommendation to Apex if Dutton Paints were not nationally advertised and the jobbers discount was 20 per cent instead of 15 per cent?

The Baylor Department Store — 51

ANALYZING MERCHANDISE TURNOVER

The Baylor Department Store was located in a small midwestern town with a population of 15,000. The store had been in the Baylor family

for 85 years, during which time it had been managed by five different members of the family. Upon the death of his father, John Baylor III took over the manager's job.

At the time John Baylor III became manager, he was 32 years old. He had graduated from college and had served for four years as an officer in an artillery outfit. When he was discharged from the service, he went to work for a large department store in Chicago and when he left to take over the family business was an assistant buyer in the men's clothing department.

His father had never believed in keeping very extensive records and had always operated the store on the basis of what he called "sound horse sense." It was his contention that a merchant did not need many records if he kept in close contact with his customers. The only information that was recorded was the data necessary to construct the yearly statements and the various tax reports.

The sales volume of the store had remained fairly constant for the last decade. Ten years ago the store did a volume of $160,000 and this year sales amounted to $159,000. This year, also, the average inventory at retail amounted to $134,000, which gave the store a 1.2 turnover figure for the year.

All the employees of the Baylor store, with the exception of one clerk, were members of the Baylor family and had been working at the store for a period of ten or more years. When John Baylor III became manager, he immediately called the employees together and pointed out the necessity for some changes in operation. He was particularly concerned about the low turnover figure and emphasized that this situation must be improved.

The plan he outlined for increasing turnover included the following:

1. *Avoid overbuying.* To do this he asked the department heads to set up individual budgets and to plan on the amount they would need for the entire year. The budgets were to be arranged on a monthly basis, and purchases were to be limited to 65 per cent of anticipated sales for each period so that the present inventory could be adjusted.

2. *Discontinue scatter-buying.* In the past, the Baylor executives had purchased from a variety of outlets. The department heads were told that in the future they must limit the number of outlets to one or two from whom they would purchase the bulk of their merchandise.

3. *Limit duplication.* Mr. Baylor found that the store was buying from a number of manufacturers who prepacked their goods and that the company was not permitted to specify sizes or colors in the lim-

ited quantities bought. For example, the tee shirt suppliers pre-packed ½ dozen of a size, usually 2 blues, 2 browns, and 2 greens. In this farming community, where the blue jean represented 80 per cent of a boy's wardrobe, the blue tee shirts outsold 4 to 1 the brown and green combined. The Baylor store had a dead stock of brown and green tee shirts that was not saleable. Mr. Baylor felt that it was vital to check suppliers and find out which company would be willing to ship orders that were 80 per cent to 100 per cent blue as specified.

4. *Speculate in more style items.* The Baylor executives had limited their stock primarily to the staple items. For example, in the shoe department, dress shoes for girls were carried in only black patent, white, and navy blue. Mr. Baylor recommended that the store carry other colors as well. He felt that although the blacks and whites could be purchased in all sizes and most widths, for advertising purposes it would be well to have some yellows and lavenders in just one width and one size range. This would dress up the shoe department and at the same time would show the customers that the store was style conscious. He recommended that this same principle be adopted by other departments as well.

5. *Avoid accumulation of merchandise.* His father had not followed any set policy of holding clearance sales, and as a result there was too much accumulation of dead stock. To avoid this in the future, Mr. Baylor gave orders that, with the exception of staple items, all merchandise was to be marked down one-third if it did not move within a period of 90 days.

6. *Improve the general merchandising techniques.* Too many lines had been carried that were not properly displayed in the Baylor store. Also, too many items were not suitable for the trading area because they were not well-known brands and they were priced too high. Mr. Baylor recommended that the department heads study more carefully the needs of the people in the area and give specific comments as to how the whole merchandising program might be improved.

The department heads were not very enthusiastic about Mr. Baylor's plan and criticized it because it involved too much detail work. They indicated that they had all lived in the community for years and knew the wants and demands of the people in the area. Furthermore, although the turnover figure was low, it was necessary to carry a complete line of many of the items to satisfy the peculiar needs of a limited market. It was also their opinion that it was not a sound policy to have too many clearance sales because of the ill-will that could so

easily develop. They emphasized that it was not a good practice to lower prices when merchandise did not move within 90 days in this farming community, because here sales fluctuated a great deal more than they did in Chicago.

QUESTIONS

1. How important is merchandise turnover to a store of this kind?
2. Evaluate Mr. Baylor's plan for increasing turnover. In what ways would you say that the plan might be modified or strengthened?
3. How important is limiting the number of outlets in increasing the turnover figure? How would you reconcile Mr. Baylor's recommendation that the department heads should speculate in more style items in a plan for increasing turnover?
4. Was Mr. Baylor right in placing so much emphasis on increasing turnover? What procedure would you recommend that the Baylor store adopt?

Williams Company — 52

DECIDING ON THE PRODUCT LINE

The Williams Company is a large general insurance company. During the past year, as a result of an increase in claim allowances, the company has suffered extensive losses in its automobile insurance division. Because of the unprofitability of this type of insurance, the executives of the company met to determine if the company should discontinue its automobile insurance.

The Williams Company was established in 1887. It is one of the five largest fire insurance companies in the United States with fire insurance premiums amounting to over $50,000,000 annually. The company also writes inland marine, automobile physical damage, ocean marine, and crop hail insurance.

The company belongs to associations that insure such specific risks as aviation oil, cotton, nuclear energy programs, grains, railroads, and manufacturing and industrial establishments. These latter types of insurance are classified under the general heading of allied lines. Various

new types of multiple insurance policies have been introduced by Williams. Insurance coverages designed to give property owners broader protection at reduced cost have been further developed. These new policies not only benefit the insuring public but also enable the Williams agents to provide better service to policy-holders. The substitution of a single policy for several insurance contracts to provide the same or a greater measure of protection enables Williams to simplify operations and reduce expenses by eliminating the costly routine of handling numerous insurance forms.

The Homeowners Policy, with its single premium and broad package form, gives homeowners broader protection at minimum cost. This specifically designed combination contract offers several separate property and casualty coverages in one. In the insuring of manufacturers the company offers a contract known as a Manufacturer's Output Policy. This policy protects a manufacturer against the risks of loss (except for certain perils necessarily excluded) to company-owned personal property, at all locations away from manufacturing premises.

Williams also offers a broad form of protection for merchants. This coverage provides insurance on personal property—stocks of goods, wares and merchandise, furniture and fixtures—against all risks of physical loss anywhere in the United States, subject to certain necessary exclusions and limitations.

These and other policies have been well accepted by the general public. This favorable reception is accomplished in part by the fact that the management of Williams believe that good public relations call for constructive thinking with respect to the scope and quality of services to the public and aggressive action in making these services favorably known and understood. To achieve the good will of the customer, the Williams Company uses extensive consumer advertising. The advertisements emphasize the professional services offered by representatives of the company. At the same time, a sales portfolio and special sales aids are prepared for use by agents at the local level. The company also prepared a safety manual to provide helpful information about fire protection, fire and accident hazards, and safe driving.

Williams, like all insurance companies, depends upon its investment income as a major source of its total income. The money received from premiums is invested and the return goes into the company's investment income. The company has $250,000,000 of marketable

securities listed on its balance sheet. During the last year period, the company wrote premiums amounting to $100,000,000. Of this total, $8,950,000 consisted of automobile premiums. This percentage is consistent with the company's policy to minimize its loss on automobile insurance. The company's policy of curtailing its volume of automobile insurance has not been as effective as planned and it was believed that the problem should be more thoroughly investigated because its automobile insurance continued to be very unprofitable. The incurred loss and loss expense ratio for automobile insurance has risen from 45 per cent to 60 per cent during the past five years. This loss increase has been attributed to several factors which influence the insurance industry as a whole. These include the higher costs of repairing automobiles because of such features as wrap around windshields and increased chromium ornamentation, the high settlements allowed by courts on bodily injury suits, and the generally higher costs of operation due to inflation.

The company's executives and specialists in the loss and adjustment field met at the home office to discuss whether to discontinue the automobile insurance line. It was pointed out that the losses and expenses incurred from automobile insurance had increased appreciably while premiums earned and premiums retained had only a slight variance. The study of a national insurance research organization showed that Williams had a net loss of over 17 per cent on its premiums written for automobile insurance.

It was brought up that if Williams were to eliminate its line of automobile insurance, this might seriously effect the company's goodwill. It was believed that the elimination of the automobile line, although it made up only 9 per cent of the company's premiums, could cause the public to lose faith in the company.

It was further pointed out that, if the company discontinued its automobile line, its present customers might change to other companies where they could get a complete line of insurance. Many people prefer to place all of their insurance with one company. Also, if the company discontinued its automobile line, it would be giving up a certain amount of cash that it could use for investment.

Williams' loss expert stated that, although there was some promise of increasing rates in the future, it was doubtful whether the increase in rates would be adequate to cover the ever increasing costs of repairing automobiles. He pointed out that, unless motorists attempt to control the number of accidents occurring on the nation's highways, in-

surance rates must continue to rise. In his opinion, the situation had reached a critical point with numerous companies finding automobile insurance unprofitable. He recommended that, although the elimination of automobile insurance from the company's product line would definitely have an adverse effect on the company's premiums, that effect could be lessened by informing the public frankly why automobile insurance had to be discontinued.

The controller of the company stated that the elimination of automobile insurance would result in a decrease of losses and expenses through internal economies, since automobile insurance required a great amount of time and effort in the writing, adjusting, and settling of premiums and claims. He also stated that it was his opinion that the premiums lost through the elimination of automobile insurance would not have any appreciable effect on the company's investment income.

The directors of the company, however, were afraid that too much goodwill might be lost and present customers might shift to other companies.

QUESTIONS

1. Of what importance is a full product line to a general insurance company?
2. What procedures might Williams adopt to increase the profitableness of handling automobile insurance?
3. If the company decided to drop the automobile insurance, what approach should it use in informing its customers?
4. Should Williams drop its automobile insurance line?

Bookmark Stores, Inc. — 53

SELECTING LOCATION OF NEW STORES

Bookmark Stores, Inc., owns and operates 525 supermarkets in the eastern section of the United States. During the past five years, sales of the company failed to increase at a rate proportionate to the increase in population in the area covered by the company's stores.

Mr. Bookmark, the president, believed that the reason for lagging sales was that the company had not added new stores or closed marginal ones rapidly enough to meet the changing conditions in the market. It was his opinion that the 9- to 12-month period required to study the market before a store was opened or closed was too long. As a result, he recommended that the procedure the research department used to analyze the selection of a site for a store be changed. He believed that the marketing director should limit the studies to only a few basic factors.

Before the Bookmark store was opened for business, a considerable amount of planning and research was done for the proper selection of a site. First, long-range plans were developed for a proper theoretical distribution of stores; secondly, prospective sites were selected that fitted in with already established long-range plans, and, finally, a sales estimate of a proposed store was made through the use of a control store.

The marketing research director believed the most important single factor in a good location was the density of population of the area in question. He had found that, in areas of very dense population, with as many as 80,000 people per square mile, the store would reach less of the total potential than in a less dense area as, say, 10,000 persons per square mile.

As the first step in determining a profitable store location, the operating division director drew up location plans. The plans included stores that should be closed, those that were to be retained, and the areas that should be penetrated to cover the potential market. These plans were considered to be the forecast of the ideal spacing of the stores. They were based primarily upon the density of population.

In accordance with the long-range plans, specific plots were selected by the real estate manager. If the site was available and the owner was willing to negotiate with the company, a report was prepared by the market research department and submitted to the administrative real estate committee, which consisted of the president, vice president of research, and the head of the real estate division. This report included all the pertinent information on the area, such as the population, major competitors, maps and aerial photographs. The objective at this point was primarily to determine if the population was sufficient to support an additional food store.

The growth of an area was also of primary consideration as some of the sites were purchased with an eye to the future; an area might

not be sufficient to support an additional location at the time of purchase, but its rate of growth might warrant the purchase of the site for future development.

When the site was tentatively approved by the real estate committee, the market research department was asked to determine what sales a store would have if developed on that site.

In most instances, the marketing research director selected a control store, a store in an area that was similar in respect to population density, traffic congestion, and competition. After the store was selected, home interviews were conducted in both the control store's and the proposed site's trading areas to determine: (1) what share of business could be obtained at the latter; (2) under what conditions it was obtained; and (3) how conditions in the control store differed from those of the proposed store.

To obtain the store's share of business, a random selection of several hundred homes within a mile or so of the control store was made, and company-trained interviewers were instructed to interview the housewives of each home. These interviewers were instructed not to represent Bookmark; they were required to state they were conducting an "independent" survey. The purpose of these interviews was to find out where housewives shopped for their food, and what share of their weekly budget they spent at Bookmark and other stores in the area. From the information received, the control store's share of the total food business in this area could be determined according to the various distances and directions from the store. As an example, Bookmark might get 33 per cent of its total business from families living 1/4 mile away, 28 per cent from those living 3/8 mile away, 25 per cent at 1/2 mile and so on.

At the same time the share of business was being determined, the conditions under which it was obtained were found. These conditions were:

1. The amount of shopping done by automobile.
2. The number of families who have automobiles available for shopping.
3. The amount of shopping done at cash-and-carry food stores as opposed to other types such as special meat and produce markets, delicatessens, wagon peddlers, credit and delivery stores, etc.
4. The distance shoppers were accustomed to traveling for food buying.
5. The presence or absence of traffic arterials, congestion, and barriers.
6. The amount of competition.

A similar survey was made around the proposed site to determine how characteristics differ here from those in the control area. The share of business as determined for the control store was applied to the proposed location; then, the differences in the characteristics of the two were accounted for through adjustments to this share of business formula.

In addition, a customer source survey was made at the control store in regard to population accessibility, and level of competition. This survey consisted of interviewing Bookmark customers as they left the store to find out:

1. How they came to the store.
2. How far away they lived.
3. In what direction they lived from the store.

This information was compiled on maps, and the customers were listed by quadrants as to their distances from the store and by map section numbers. The results could then be related to the proposed site in estimating what percentage of total customers might be expected to come from outside the area surveyed by the home interviewers.

In the meantime, the population of both areas was estimated from various sources. Likewise, the income level and corresponding per-capita weekly food expenditures were estimated.

The results of these surveys and estimates were then tallied. Population was listed by map sections within the trading area, each section's adjusted potential weekly sales volume was determined, and an estimate of sales from those living without the trading area was added, giving the approximate total sales that might be expected.

The research director then forecast what the volume of the proposed store would be if opened at once. However, since it took at least six more months before a store could be opened, projections were made of conditions when the store opened and up to five years to determine whether conditions might change drastically in these periods. To forecast this far in advance, many sources were consulted. These included reports of state highway commissions, city planning boards, real estate developers, chambers of commerce, utility companies, and banks. In all, between the time the original research was authorized and the forecast was completed over 40 different sources were utilized. In addition to those mentioned, Sales

Management's Survey of Buying Power, neighboring schools of business, local libraries, school boards, and in some areas even military commissaries were questioned. Factors such as the estimated population in each section of the trading area, changes in the level of competition, traffic barriers, traffic density or accessibility, and the economic status of families were also considered when looking ahead.

The studies normally required from 9 to 12 months but sometimes ran up to several years before they were completed.

QUESTIONS

1. What factors should be considered in the location of a supermarket?
2. Indicate how these factors should be ranked. Could these be limited to one or two?
3. What procedure would you recommend that the marketing research director should use in selecting a site so that the time required for making a study could be cut down?
4. Evaluate the technique of using a control store approach.

Johnson Wholesale Drug Company — 54

DETERMINING THE PROFITABLENESS OF SMALL ACCOUNTS

The Johnson Wholesale Drug Company was incorporated in January, 1935, for the purpose of combining under one ownership a group of well-established wholesale drug companies located in various parts of the country. Additional wholesale drug companies were acquired by the company from time to time, so that now the business is conducted on a nation-wide basis through 54 divisions located in 28 states.

The company distributes in its wholesale drug business almost all the products that are usually sold by retail druggists, totaling many thousands of different items, including drugs, medicines, pharmaceuticals, cosmetics, toiletries, and drug store sundries. These products are obtained from over 4,000 manufacturers and suppliers and are sold principally to about 20,000 retail drug stores, or to about 40 per cent of all such stores in the United States. Johnson's wholesale

drug services includes local warehousing and delivery and also furnishing merchandising aids and advice to customers.

Johnson follows the policy of using salesmen in every division to contact the retail druggists. These salesmen are required to call on all retail druggists in their respective territories, regardless of the quantity that might be purchased, and to offer as many merchandising services as needed. These services include building window displays, helping with purchasing, balancing stocks, advising on sales trends, arranging interior displays, suggesting markdowns, and recommending special promotions.

It was the belief of the Johnson Company that the goodwill developed in this manner did much to maintain a strong retailer-wholesaler relationship. Johnson did only a limited amount of national advertising because of the aforementioned policy.

Although the sales of the Johnson Company increased during the last five-year period, the net income before federal taxes continued to decrease. This declining profit margin was very disconcerting to the company, and an investigation was made to determine the cause. In the course of the inquiry, the controller decided to analyze the profitableness of the 20,000 customers.

The cases of the study were limited to company records. The records used were the following:

(a) Name of each customer.
(b) City in which retail store was located and the distance from the division warehouse.
(c) Number of each customer's purchases over the last six months' period.
(d) Total dollar value of each store's purchases during this period.

The information from the records necessary for the investigation was placed on cards, one for each customer. These cards were sorted and classified according to the subject matter being studied. For example, in order to determine the number of small orders and their value, the cards were sorted into five piles: one for total purchases of less than $100; one for purchases between $100 and $250; one for purchases between $250 and $500; one for purchases between $500 and $1,000; and one for $1,000 and over.

After this sorting was completed, the number of customers and the value of their purchases were added up for each of the five groups. A similar method was employed to compile the other information presented in the controller's report.

When this sorting was completed, the number of customers and the value of their purchases were added up for each of the five groups. A similar method was employed to compile the other information presented in the controller's report.

In this report, the controller indicated that a large proportion of Johnson's customers placed small orders and probably required a relatively large amount of service. See Table I.

Table I

Total purchases by each retail store for the last six-months' period	*Per cent of number of customers*	*Per cent of Johnson's total sales for period*	*Average size of order in dollars*
Less than $100	12	1	$ 9.75
$100 to $249	27	15	18.75
$250 to $499	30	31	36.21
$500 to $1,000	18	24	65.84
$1,000 and over	13	29	97.63
	100	100	

The controller concluded from these figures that the customers who bought less than $100 during the six-months period made such small purchases that it was not worthwhile to keep these accounts. In his opinion, it was also doubtful as to whether or not those who bought less than $250 should be retained because he could show how their accounts were unprofitable as well. He believed that the high cost of handling these accounts was the most important single factor causing the decreasing profit trend. Another point that he emphasized was that many of the druggists had shifted to more of a "hand-to-mouth" buying policy. In the six-months period, 11 per cent of the customers had placed orders 50 times or more. He recommended that steps be taken to change their buying habits or even to eliminate some of these customers.

The sales manager was reluctant to drop any of the accounts because he felt that if his salesmen gave better merchandising services than any of the competitors, Johnson would eventually be able to make these customers profitable. He stated that 95 per cent of the 2,400 retail drug stores that the controller wished to drop were potential profitable accounts.

QUESTIONS

1. What should be the policy of the Johnson Wholesale Drug Company in dealing with the 2,400 drug stores whose purchases totaled less than $100 during the six months' test period?
2. Should the same policy be applied to those stores who purchased between $100 and $250 worth of Johnson's products?
3. Recognizing that the Johnson Company was faced with competition from local wholesalers as well as from the national distributors, what might the firm do to change the "hand-to-mouth" buying policy, which is always costly for a distributor?
4. How long should a wholesaler continue to service an account that is unprofitable?

TEN

Product planning for manufacturers

Carlson Lock Company (A) — 55

A VARIETY OF MARKETING PROBLEMS FACED BY A MANUFACTURER

The Carlson Lock Company manufactures a wide line of residential and industrial door locks, handles, and associated hardware. Carlson locks served as the yardstick of quality for the cylindrical lock industry.

Although Carlson's hold on the heavy-duty industrial market seemed secure, competition developed for the cylindrical line of locks for the residential market. National Hardware introduced a new cylindrical line of locks in both Locktone and Scriber in 1951 and

had an increase in sales of 34.1 per cent. Keenset, which entered the market by using price appeals for its cylindrical locks, loomed as the largest competitor for the Carlson Company.

Keenset Locks, Inc., began producing locks about 1947, and by turning out a satisfactory lock at a lower price than Carlson and the other lock manufacturers, was considered by 1951 one of the five largest producers of locks in the United States.

The Keenset lock, comparable to the Carlson Y-type lock for residences is a die-cast job and sells for $6.45. Carlson wafer construction, which is an all-steel lock, sells for $7.45 in the wafer type and $11.45 in the five-pin tumbler construction. The new Keenset lock, a six-pin tumbler construction, sells for about $9.75, which is considerably under Carlson's five-pin tumbler lock in the Y line. (A five-pin construction is capable of 1,024 different combinations, and a six-pin construction will give 262,000 different variations of master key combinations.)

Because of the prohibitive costs of building, the day of the individual architect-designed home is passing. In the first quarter of 1953, 77 per cent of the homes were constructed by operative builders. This percentage has increased considerably. The trend toward development housing means that the residential housing industry has become big business, and the materials going into the houses are chosen because they meet the minimum standards and allow a greater profit per house.

Distribution

Carlson sells primarily to hardware dealers and ship-building concerns through its sales force of 45 salesmen. Approximately 1,500 active accounts are serviced through its offices in Jersey City, New York City, Chicago, Los Angeles, and San Francisco. A sizeable export business is also transacted with Central and South American countries, the Dutch East Indies, and other countries.

Lock market

According to F. W. Dodge figures, there was a market of over 10 million units of locks in 1953. This figure was based on the new construction market because it is not possible to estimate the replacement market with any degree of accuracy. The extent of the

lock market was estimated by taking the figure of floor space going into all classes of nonresidential and residential building and then utilizing a conversion figure on the number of doors per square feet of floor area.

Eleven per cent of the total lock market in units was in the field of nonresidential building. Eighty-nine per cent was in residential building; 72.5 per cent of the total residential unit lock market lay in one- and two-family dwellings.

It is estimated that in 1961 annual construction will have risen to $35.9 billion and that residential construction will account for over $14 billion of that total. Upwards of 1,000,000 residential starts per year are predicted for the next few years.

The residential field

Surveys show a lag in home selling, particularly in the higher brackets, that is, houses selling for over $18,000. In these brackets the public has become more particular about quality, especially finishing and detailing. Because Carlson serves as the yardstick of quality for the cylindrical lock industry, the company believes that it will be able to maintain this market. People who want to buy these homes are more discriminating, and builders are more prone to accept the selling help of established, quality lines in hardware, plumbing, heating, and kitchen equipment.

On the other hand, the tract builders will not use Carlson locks unless they can be shown that these locks will definitely help sell their houses. Price is becoming more and more a factor. This was pointed out by the purchasing agent for a large developer, who builds homes in three price brackets: $12,500 to $16,000; $18,500 to $22,500; and $25,000 to $45,000.

He said, "All homes, even the $45,000 homes, are speculative construction. We build to the extent of 500 homes a year. In addition, we are one of the few residential tract builders employing regular architects to plan our developments.

"We use Keenset locks on the basis of price, ease of installation, appearance, and the fact that in all of our experiences the locks have been holding up. It would cost us about $70 more per house to put in Carlson instead of Keenset. We have not encountered any complaints from occupants about the locks."

Another residential builder stated, "We can only afford to put a

maximum of $60 into the locks we use in our tract homes. We are building homes in the $9,000 to $12,500 price range and as you can realize, price is the big factor. We can't afford Carlson. We build about 600 homes a year and, as a result, we use Keenset and Beslock."

Other tract builders emphasized these same factors. Although they were aware that Carlson was a quality lock and although a number of purchasers had requested that Carlson locks be installed on exterior doors, they felt that persons inspecting a home are generally not very observant when it comes to hardware.

QUESTIONS

1. What person influences the kind of hardware that will be used in residential homes?
2. Can the consumer be made so conscious of locks through advertising that he will insist on a given brand being used in his home? How important is quality to the consumer?
3. Since the architect will usually specify the hardware to be used in a home unless the client has a particular preference, how important is it for Carlson to work closely with architects in order to get their locks in the tract homes?
4. Should Carlson produce a lower price lock that would compete with Keenset? This lock would have to be of a lower quality. Should Carlson use the same brand name on this lock in the event the company decides to go ahead with it?
5. Would it be better for Carlson to produce locks primarily for the industrial and the more expensive residential home market and to limit its effort in the tract market?
6. Do you believe the home buyer looks upon the locks and the other hardware in his home as he would upon the jewelry of a smartly dressed woman?

Mars Polish Company — 56

EXPANDING THE MARKET

Mars Polish Company was incorporated under the laws of the State of Pennsylvania five years ago to develop, process, produce, and distribute boot polish of all kinds. The organizers of the company were

John Franklin and James Nelson. John Franklin was a chemist and had been associated with a large manufacturer of shoe polish for five years. James Nelson was a salesman and had sold for several food manufacturers since his discharge from the Army.

While Mr. Franklin was with the large manufacturer, he developed, on his own time, a new type of shoe polish that was superior to any of the polishes on the market. Because of a special combination of waxes, oils, dyes, and leather preservatives, the shine produced with his polish surpassed that of any of the other polishes in the tests which were made. Another advantage of the polish was that it could be manufactured in any of the standard colors, and when a person applied the polish to his shoes, it would not discolor his hands.

The chief disadvantage of the polish was that one had to dry rub briskly for a longer period of time in order to get satisfactory results. Because of this factor, both Mr. Franklin and Mr. Nelson felt that it would be best to concentrate on shoe shine parlors and stands and shoe repair stores in introducing the polish to the public. As Mr. Nelson stated, "I am sure that once the people see the results that are secured with our polish they will begin to put pressure on the various retail outlets to handle the product."

The polish was packaged in 3-ounce containers and sold to the above outlets for $1.58 per dozen. Sales were not as great as the owners had anticipated, but the company was still able to make a small profit in the first three years.

Two years ago Mr. Nelson questioned a number of retailers and finders (jobbers) to determine what the opportunities might be to distribute in the retail field. He found that the majority of the other shoe polishes were sold in 1½-ounce to 2-ounce containers. It was the practice of the trade to fair trade the polishes, and the same wholesale price was offered to all outlets, regardless of whether the customer was a finder or retailer. As an example, polish that retailed at 25¢ a can was sold to both retail stores and finders for $1.63 per dozen. As a result of the policy of selling to all outlets at the same price, the finders were able to sell only to those shoe stores and shoe repair shops that purchased in small quantities. The finders were dissatisfied with this policy and carried polish primarily as a convenience for some of their accounts.

Mr. Nelson believed that the company, if it decided to enter the retail field, could offer a 2½-ounce can of its polish at the going price of $1.63 per dozen. He believed the larger quantity, the su-

periority of the polish, and the other advantages would more than offset the inability of the company to do any national advertising. Although both he and Mr. Franklin were aware of the difficulty in applying the polish, they felt that this would not be too objectionable to the consumers because the shine would last longer.

QUESTIONS

1. How important is the fact that the Mars Polish Company planned to offer a greater quantity of the shoe polish for the same price?
2. Do you believe that the Mars Polish Company could secure consumer acceptance without the use of national advertising for its product?
3. What are the main qualities that a consumer wants in a shoe polish? Of these, which would you say are essential if the polish is to receive general consumer acceptance?
4. Should the Mars Polish Company introduce its shoe polish in the retail market or should it limit distribution to the shoe-shine parlors and shoe-repair stores?

Ace Radio and Television Company — 57

IMPORTANCE OF DISTRIBUTION IN A DIVERSIFICATION PROGRAM

The Engineering and Research Department of the Ace Radio and Television Company has developed a low-priced magnetic tape recorder that can be attached to any standard radio set or used separately as a recording or dictating machine.

The company is engaged in the engineering, manufacturing, and sale of television receivers and radio receivers. It produces 11 models of television receivers sold under the trade name "Ace," ranging in list price from $159.95 to $949.95 depending on the size of the picture tube and other features. The lowest priced unit is a table model equipped with a 17″ picture tube, and the most expensive model is a radio-phonograph-television combination equipped with a 21″ picture tube. Other table and console models are produced with either 17″, 21″, or 24″ picture tubes.

In its radio division the company produces eight models, one of which is a table model retailing at $23.50. The other models are more expensive and range in price up to $195.95.

The company's manufacturing operations consist primarily of the assembly of parts produced by other companies according to the specifications established by the Engineering and Research Department. These parts include chassis, speakers, tubes, cabinets, condensers, transformers, coils, switches, and tuners.

Ace's products are distributed from coast to coast either to wholesale distributors or directly to dealers. Last year, approximately 85 per cent of the company's sales were made to wholesale distributors located in principal television centers outside the New York metropolitan area, and the balance of approximately 15 per cent was made directly to dealers, including those in the New York metropolitan area.

Until ten years ago, when its method of distribution was changed to direct sales to dealers, all the company's products were sold to wholesale distributors. The subsequent trend, however, has been a return to wholesale distributors, except in the New York metropolitan area, where sales are made direct to dealers. For the most part, such wholesale distributors handle only noncompetitive products, whereas dealers handle competitive products.

The Ace Company's sales volume had changed so that last year 95 per cent of its total sales were television sets and 5 per cent radios. Ten years ago sales of television sets accounted for only 19 per cent of the total sales volume. Last year Ace's sales accounted for less than 2 per cent of the television sales in the United States. It was considered one of the smaller companies in this rapidly expanding but highly competitive industry.

The company's manufacturing plant is a four-story modern building of steel and concrete construction, comprising approximately 250,000 square feet of floor space. In this building, 20,000 square feet of floor space at the rear of the ground floor are leased to the Sangamon Motors Company, whose lease expires in 60 days.

The machinery, equipment, and plant facilities are of modern design, in good condition, and have an approximate average age of two years. In the event the company decides to manufacture a tape recorder, there appear to be no important production problems that will have to be solved. By not renewing the lease with the Sangamon Company, adequate floor space will be available. Also, the company

has developed such fine relationships with its suppliers of parts that it will not experience any difficulty in getting them to manufacture the parts for the recorder.

In checking the market potential for the tape recorder, Mr. Collins, Director of Research, found that there were 41 companies manufacturing sets and over 14,000 retailers selling them. Prices on the sets ranged from $95 to $325 for home recorders. Professional sets varied from $400 to $25,000.

As a result of the tests he had conducted, Mr. Collins believed that the fidelity of reproduction of the Ace Tape Recorder compared favorably with the lower priced recorder of RCA Victor, Ampex, Rangertone, Magnacord, and Sound-Scriber.

In his report, Mr. Collins indicated that the uses of a low-price tape recorder are many. Its simplicity of operation, the high fidelity of lifelike reproduction, the ease and speed with which tape can be erased, and the accuracy with which the tape can be cut or spliced are important factors in increasing the variety of uses in offices and homes.

The main problems that face the company if the decision is made to produce the tape recorder are centered around the method of distribution and the market in which the machines may be sold.

The wholesale distributors of the company are specialists in the television and radio industry and are not experienced in the distribution of recording equipment. Most of the retail stores to which these wholesalers sell do not handle recorders of any kind. Of those that do, none of them sells recorders to business firms in any quantity.

The potential market that the Ace Company envisions for its tape recorder is primarily in the home and office markets. Although the price of the recorder has not been established, it appears from early cost studies that it will be necessary to get a retail price of about $175.

QUESTIONS

1. Should the Ace Company further diversify its product lines by manufacturing the tape recorder?
2. What is the potential market for a low-priced tape recorder?
3. Would it be possible for the Ace Company to use the same channels of distribution for the tape recorder as for the television and radio sets?

4. If the same channels could not be used, what channels would you recommend?
5. What principle for a program of diversification can be developed in relationship to the policy of distribution?

C. Joseph Instrument Company — 58

C. Joseph Instrument Company is engaged primarily in the design, development, manufacture, and sale of precision analytical instruments for scientific, industrial, and laboratory uses.

Net sales of the company during the last calendar year were $6,975,000. All sales were made through manufacturing agents to industrial buyers. Mr. Joseph did not believe it was advantageous for the company to bid for government contracts either as a prime contractor or as a subcontractor. The company had maintained a steady growth over a twenty-year period without accepting government contracts. He was afraid of the red tape and various restrictions that might be placed on the company if government contracts were obtained.

The company maintained an active research department that had contributed much to the growth and prestige of C. Joseph. All of the products that were manufactured by the company had been developed in this department. The research department was also constantly endeavoring to improve its products to meet the changing requirements of its customers and to take advantage of technological developments and new production techniques.

Mr. Joseph was firmly convinced that his company could continue to grow and develop by having freedom of action in its research and product development. On the other hand, the vice president of the company believed that it would be for the best interest of the company to obtain government contracts. As a result, he presented the report shown in Exhibit I to the directors at their annual meeting.

Exhibit I

Recommended marketing policy for
C. Joseph Instrument Company

The objective of this report is to evaluate certain aspects of government procurement as it affects development of a product line and the marketing channels

of C. Joseph Instrument Company. The proposals contained herein will: (1) lead to the development of an optimum product mix; (2) maintain the competitive position of the company in a rapidly changing field; and (3) enhance the rapid growth and maximize the profits of the company.

A long-range product planning and development program is essential in an industry that advances rapidly through the efforts of its research and development. This policy is particularly applicable in the case of C. Joseph Instrument Company, which was organized specifically for the development and production of specialized test equipment to meet a restricted market. The product planning and development program and the selection of marketing channels must obviously be considered from the standpoint of the market to be served.

As a matter of policy, C. Joseph Instrument Company has not solicited government contracts or subcontracts. The reasons for such a policy are assumed to be a strong civilian market, although dependent to some extent upon government spending, and the problems associated with government procurement such as low profit margins, expense of negotiation, requirements for patent and design data assignments, unrealistic product design specifications, and cost of inspection requirements.

Although recognizing the foregoing problem areas, product planning and development by C. Joseph Instrument Company should include a limited amount of classified research and development of prime government contracts for the following reasons:

(1) They would permit long-range decisions on product policy based on receipt of classified and unclassified government information relating to the entire field of specialized instrumentation.
(2) They would permit acquisition of classified and unclassified information concerning new major systems developments that may lead to future large requirements for specialized test equipment in both a military and civilian market.
(3) They would lead to the maintenance of a strong competitive position through the encouragement of product planning based on classified information relating to new developments in both pure research and systems development.
(4) They would require careful screening of invitations for proposals issued by the government that are within the company's specialized field and capacity, and thus would meet the company's long-term product development program.
(5) They would put the company in a position to make a rapid changeover to development and production of military equipment, since the company would be thoroughly familiar with standards, practices, production techniques, and quality control requirements of government specifications.

The foregoing are a few of the important advantages that may accrue from government developmental contracts and that may lead to a product mix that will give the company greater competitive advantage in both a military and civilian market. These advantages should outweigh the disadvantages of government contracts provided that: (1) careful screening of proposals is under-

taken to assure acceptance of only those meeting long-range product policy; (2) prime government production contracts are limited to a reasonable percentage of total capacity; and (3) careful study of patent and assignment rights is conducted to assure protection of the company's position while complying with the spirit and intent of the Armed Services Procurement Regulations. Although these same advantages apply also to government subcontracts, it is considered that prime contracts are preferable from the standpoint of direct contact with the ultimate customer. Further, direct contact with the government technical personnel is important in obtaining timely information necessary for proper product planning in both military and civilian areas.

Although all products produced by C. Joseph Instrument Company are currently being marketed through manufacturers' agents, it is considered that basic differences in product market dictate a change to a combination of direct selling and manufacturers' agents. Under this plan, all products sold to the government and all highly specialized equipment having a very limited market would be handled by a direct sales organization. Equipment that appeared to have wide sales potential to other than government markets would continue to be handled through the present manufacturers' agents.

Direct selling to the government would centralize responsibility for covering the various bureaus in Washington and maintaining contact with selected major research and development activities located in other areas. Among the advantages of such a change in policy are the following:

(1) Maximization of the advantages listed under the recommendation that the company secure direct government contracts.
(2) Avoidance of the reluctance of government personnel to deal with manufacturer's agents.
(3) Direct relationship maintained between procurement officials and the direct sales representative of the company.
(4) Closeness of the contact maintained by direct sales representative provides an important "feed-back" path to guide the company in its development of an optimum product mix and to assure customer satisfaction.
(6) Assignment of a sales engineer to deal directly with the government on a permanent basis allows specialization of function.
(7) Reduction of the need for using design engineering personnel for sales engineering work.

The foregoing comments are also applicable to the sales engineering functions between the company and contractors to the government as well as solicitation and sales of commercial products designed to meet the individual customer's specifications.

QUESTIONS

1. Do you believe the president of C. Joseph Company has followed a sound policy in refusing to bid for government contracts?

2. Give the disadvantages to C. Joseph if it decided to accept government contracts.
3. What method of distribution should the company use in selling to the government? Why?
4. Should the recommendation of the vice president be adopted by the directors? If so, in whole or in part?

How Chemical Company — 59

MARKETING A NEW PRODUCT

How Chemical Company is one of the smaller producers of basic heavy chemicals, including carbon tetrachloride, sulphuric acid, caustic soda, carbon disulphide, chlorine, and agricultural chemicals. The company's products are used by many important industries, such as rubber, petroleum, auto parts, paint, soap, glass, paper, textile, drug, and food.

How Chemical Company is in active competition with other companies producing the same or similar products and, in some cases, with companies producing different products designed for similar purposes.

Recently, its research department developed a new chemical, HOWZIE, which had multiple uses and would improve the quality of latex paints, petroleum, paper, textile plastics, and emulsion polymers. The company was uncertain as to what procedure it should adopt in marketing and pricing the product.

The chemical industry has been growing about twice as rapidly as other industries in the United States. The four major chemical companies have been averaging about a 17 per cent return on stockholder's equity during the past five years, or about 6 per cent above the average of other industries.

Because of the competitive conditions in the industry, the How Company followed the policy of selling its products on the basis of the gain in profit that the customers would receive if they bought How's line. How also tried to operate its plant at maximum capacity because the manufacture of its chemicals was essentially a continuous process, and per unit overhead costs decreased rapidly as the company came closer to this goal. However, profit margins did not always increase when maximum production was reached because, in order to attain the level, How might have to reduce its sales price.

In evaluating the potential for HOWZIE, the marketing research director presented the information in Schedules I, II, and III.

Schedule I

How's share of market for Howzie

Product in use	*Total current market for all such products*	*Howzie's projected share of market at various prices*			
	lbs. per year.	*50¢ per lb.*	*40¢ per lb.*	*33¢ per lb.*	*25¢ per lb.*
Plastics	4,000,000	—	1,000,000	1,500,000	4,000,000
Paper	4,000,000	—	—	1,000,000	4,000,000
Textile	3,000,000	—	—	500,000	3,000,000
Petroleum	3,000,000	—	—	500,000	3,000,000
Latex paints	2,000,000	—	—	500,000	2,000,000
Agriculture	2,000,000	—	—	—	2,000,000
Emulsion polymers	1,000,000	—	500,000	750,000	1,000,000
	19,000,000	—	1,500,000	4,750,000	19,000,000

Schedule II

Competitor's average price (Products somewhat inferior) 33¢ per pound

Schedule III

How's cost per unit

Present plant capacity for Howzie manufacturing	*Cost per pound*
1,000,000	35¢
2,000,000	33¢
3,000,000	31¢
4,000,000	29¢
5,000,000	27¢
6,000,000	25¢
7,000,000	23¢
8,000,000	21¢

Although HOWZIE was superior to the products of competitors, the How executives believed that because these other companies were already established in the market, a considerable period of time would be needed to convince industrial purchasers that its product was better.

The controller of the company had recommended that How should set a price of 7 cents per pound above manufacturing costs to cover the sales expenses and the average profit margin. How sold its chemicals through its own sales staff and did not use any middlemen.

How's executives were hesitant to expand the plant capacity beyond the present size because they realized that the major chemical companies generally sold to the larger customers under contracts running from year to year or for a longer period depending upon the customer's requirements. As a result, it might be over a year before many of the customers would be in a position to place orders for HOWZIE.

QUESTIONS

1. At what level should How plan its operations for the new chemical?
2. What introductory price should it set for HOWZIE?
3. In what manner would you recommend that this new chemical be marketed?
4. Should How stress product, price, or service as its basic selling appeal?

Burton and Company — 60

TESTING THE MARKET FOR A DENTAL PRODUCT

Ten years ago American Laboratories, a manufacturer of cosmetics, brought out a dental cosmetic that when applied to the teeth gave them a pearl-like luster. It would cover dingy, discolored, nicotine-stained teeth, even gold fillings. The product had been clinically tested in a prominent dental school and found harmless to teeth and gums. Since the product was marketed purely as a cosmetic, it could not be reviewed by the American Dental Association.

The product was put on the market, and sales were tested in about eight department stores located in big cities, coast to coast. Original sales were good but repeats seemed very poor. The product was put aside for the following reasons:

1. Lack of promotion of the product.
2. The product was originally priced to retail at one dollar. Since then, production costs have increased. American Laboratories also priced

the product at a level which fit the general price pattern of the rest of its cosmetic line.

3. Repeat business on the product was not what the company expected. Experience with selling the product showed that a follow-up on each sale was required to develop a profitable percentage of repeat business. This was necessary because practice was required in learning efficient application. At a price of one dollar, there simply was not enough margin available to perform this service.
4. The dental cosmetic was only a small specialty item for American Laboratories. Their primary interest was a line of cosmetics with an annual volume in the millions. When this product didn't go as expected originally, it was neglected.

Two years ago, J. Burton, an advertising man, discovered the sleeping product while looking for new accounts for his firm. American Laboratories told him that they would not invest another dime in promoting the product and that the product was for sale.

The product fired Burton's imagination. It was the only product of its kind on the market. Its nearest competition was a dental recap job on discolored teeth, which cost hundreds of dollars. Therefore, Burton formed a company that became the selling agent for the product. He was given control over promotion and pricing, and for his investment of time and money he was given an option to buy the property outright at a specified figure within a period of six months. Burton felt this would be ample time in which to determine the value of the property.

Features of the product

1. The product is applied with a small brush that comes with the container. A thin coating gets the best results. It is also necessary that the teeth be dry when applying the cosmetic.
2. A bottle will last approximately two months if the applications are made daily.
3. The cosmetic can be applied in about the same time as lipstick.

Burton and Company set up the following marketing policy:

1. The retail price was raised to $2.50. This change was necessary to compensate for increased production costs, to improve the product, to restyle the package, and to allow an adequate promotional budget.
2. Burton set out to learn why so many original purchasers did not become repeaters. In most cases the answer was simple: "They did

not follow directions exactly." The company, therefore, developed a beauty consultant service to give a personalized follow-up on every purchase and to pin-point the directions.

3. Distribution was through leading department stores on an exclusive area basis. Direct mail distribution was contemplated for the near future. Advertisements were planned for the pulp magazines soliciting direct mail business. All orders from people in an exclusive area would be forwarded to the store.
4. Price terms with Burton outlets were $2.50 less 40 per cent less 2 per cent ten days E.O.M.
5. Burton also allowed a "20 per-cent-off-invoice" appropriation for local advertising purposes.
6. Burton used P.M.'s to obtain the names and addresses of each customer. Each salesclerk was to be paid $2.00 for every 12 sales of the product if he recorded the required information on the P.M. slip. The company also believed that this arrangement would result in more active cooperation from salesclerks.

As a result of the Burton Company's merchandising plans, the auditor set up a planned profit per unit as given in Schedule I.

Although Burton's unit profit would be low, he believed that when he could get a larger volume of business his product and shipping costs could be reduced to $0.40 per unit.

In the first five months the company was fairly successful in placing its product in a number of the leading department stores in the New England and Middle Atlantic States. However, Burton was just about able to meet costs.

Schedule I

Planned profit per unit

Retail price per unit		$2.50
Less allowances and expenses:		
40% allowance to outlets	$1.00	
20% allowance for advertising	.30	
P.M. discount	.17	
Beauty consultant service	.10	
Cost of product and shipping	.50	
Sales expense	.20	
Administration expense	.15	2.42
Planned profit per unit		$0.08

He was not sure whether this condition was due to the difficulty of reaching his selective potential market or whether it was just the

natural high costs of missionary promotion in an attempt to develop volume business.

If the failure to earn a profit was caused by the high cost of selective distribution, Burton would then refuse his option of buying the product. However, if it was due only to the high missionary costs, he could then hope to realize future profits when his product had wider acceptance.

QUESTIONS

1. Is the market for such a dental cosmetic highly selective or rather widespread?
2. Do you believe Burton followed a satisfactory program of merchandising the product?
3. Why do you believe Burton failed to realize a profit during the first three months? Is a six-month period adequate to test a product of this kind?
4. What would be your recommendation to the Burton Company?

Washington Supply Company — 61

OVERCOMING A PRODUCT FAILURE IN THE MARKET

The Washington Supply Company is a large producer of processing materials for the textile, confectionery, and paper industries. In addition to these bulk commodities the company manufactures and packages, under various labels, a line of grocery items that are sold to chain stores and independent wholesale grocers by their own sales organization. Although the labeled merchandise accounts for only 40 per cent of the company's production, it earns about 54 per cent of the profits.

The largest sales division of the Washington Supply Company employed a district sales manager and three salesmen who, in addition to calling on the wholesale grocery trade, exercised a certain amount of supervision over a force of 20 detail or missionary salesmen. Each salesman was supplied with an automobile by the Washington Supply Company. All compensation was on a straight salary basis. Hotel and traveling expenses were allowed.

Supplementing this sales force was a home economics staff, which maintained a recipe testing kitchen and traveled throughout the territory giving luncheons for various organized groups of women. At these luncheons as many as possible of the company's products were used. A demonstration of the use of the products was given following the meal. About 100 women usually attended these luncheons.

Three years ago the new products department of the Washington Supply Company devised a formula that enabled the housewife to make fudge, cake icing, or ice cream in the home by the simple addition of water or milk. This package was designed to retail for 25 cents.

Company policy required the establishment of distribution outlets before advertising. As a result, in the early summer of the next year, all detail men were moved into one section of the division with instructions to obtain placement for the new product in every possible retail outlet. The merchandise was sold to the retailer "off the car." The quantity sold an individual was of secondary importance in this placement campaign, and the inducements to the retailer were such that 90 per cent distribution was obtained. Point-of-sale advertising material and dealer helps, including recipe folders, box toppers, and banners for window display, were placed by the detail men at the time of the sale.

In addition to these efforts, the detail men were instructed to volunteer their services to the retailer for the purposes of conducting a demonstration in his store during high traffic periods. For these demonstrations the salesman made a quantity of the fudge at home and gave out samples during the demonstration. On the spot instructions were given the housewife, and an effort was made to sell a package of the preparation. These demonstrations averaged one per week per man, and each demonstration sold from 25 to 40 packages of the fudge mix.

After six weeks of concentrated effort by the sales force, the Washington Supply Company ran a series of quarter-page advertisements in several of the local daily newspapers. Nominal quantities of the mix were purchased by wholesale grocers anticipating repeat business. It was intended that the sales force would begin a second canvass of this trial territory at the time the advertising was released.

About this time the district sales manager, making a spot check, discovered some evidences of discontent on the part of the store-

keepers. Upon investigating he found the reason was that 25 per cent of the merchandise in the hands of the retailers was in an unsaleable condition. Realizing that something was definitely wrong, he halted further sales effort of the missionary men.

When samples of the unsaleable packages were given to the production and the new products departments for analysis, the fact came to light that the tests made prior to the marketing of the package did not include those to determine whether the box would withstand humidity and moisture. The hygroscopic nature of one ingredient in the formula made the use of a moisture-proof box a prime necessity, but this problem had been overlooked. Examination of the packages returned by the sales manager revealed that the contents had been adversely affected by unusual conditions of summer humidity.

After considerable executive discussion as to the merits of various procedures that might be followed to preserve goodwill, it was decided to have the missionary sales force canvass the territory and buy back every package on the retailers' shelves, paying the full retail price of twenty-five cents. In the course of this canvass the following information was obtained.

(a) Approximately 50 per cent of the retailers still had some part of the original purchases in stock.

(b) A number of the retailers reported that the housewife had failed to obtain satisfactory results.

(c) In general, the lack of response to the item by the housewife had dampened the enthusiasm of the retailer considerably, despite the over-all prestige enjoyed by the Washington Supply Company.

In the late fall of that year, an effort was again made to market the product with a redesigned package. No extensive consumer advertising was employed. However, because of a lack of consumer demand, resistance from the retailer was strong and the marketing effort met with only moderate success. There were individual instances of consumer acceptance, and during last year, a few retailers had a satisfactory turnover of the product.

Early last year, the Pierson Company introduced a somewhat similar product on the market. More elaborately packaged and designed to retail at a somewhat higher price, the item was accompanied by a national advertising campaign. Despite the fact that this product required the addition of butter or shortening, in addition to the liquid, it met with greater acceptance from the consumer.

QUESTIONS

1. Should the Washington Supply Company attempt to develop a new package and advertise its fudge mix?
2. In your opinion did the sales manager follow a sound policy when he learned about the complaints of the retailers?
3. When a company is manufacturing a number of products and selling them under its own label, what principles should be followed in introducing a new product? Would your answer be different if the product were sold under some other brand name?
4. How would you recommend that Washington Supply Company meet the competition of the Pierson Company if it continues to sell the fudge mix?

The Quincy Company — 62

ADDING A NEW PRODUCT

The Quincy Company, a large textile manufacturer, sold three main lines of products. Under the Quincy label, it sold sheets and pillowcases, home furnishings, and blankets. Under a private label through a subsidiary firm, it sold piece goods, shirtings, and the grey goods which it did not use in the manufacture of finished products. These latter items went to retailers, jobbers, converters, and manufacturers.

The Quincy-labeled merchandise was nationally advertised through magazines and was well known. The blankets were distributed through two main channels: first, a direct sales force calling on 3,000 accounts in the United States; second, 60 wholesalers contacting 5,000 accounts throughout the United States. The retailers ranged from neighborhood drygoods establishments to large department stores.

The blanket line consisted of an all cotton-jacquard figured blanket, an "Indian print" cotton blanket, and a rayon-wool blended blanket. The latter was well known, advertised most, and sold well.

Some of the directors felt that a crib blanket should be added to the line. There would be no production problem because if the regular size blanket were cut in half it would be satisfactory. In fact, for several years, the Quincy Company had sold blanket material cut to crib size to a manufacturer, Dover Company, who bound them and marketed them under its own label. This manufacturer wanted more

and more material but was refused because the Quincy Company did not have enough fabric to satisfy its own customers' demands. The distribution of Dover Company was mainly through infants' wear shops.

At the request of the directors, the Marketing Research Department made a preliminary survey of the "crib blanket market." Some of the findings were as follows:

Births in the next few years were expected to reach record highs. A higher percentage of these babies were first-born, signifying new customers for crib blankets.

Production (in linear yards) of crib blanket fabric (all fibers) has increased from 11,795,000 in the last two years to 20,635,000. Production (in yards) during this same period increased over 25 per cent without an increase in the number of looms assigned to this production.

Four manufacturers make 83 per cent of all crib blankets. Blend preferences among customers, according to a recent study, were as follows:

49%—wool
17%—all cotton
30%—mixtures

A leading mail order merchandiser said that 85 per cent of his sales were "all cotton" blankets, but this percentage varied considerably among the different types of outlets surveyed. Blends, for example, received little consideration in a survey of medium-income department stores. In addition to crib blankets, there are "receiving blankets," a type similar to crib blankets but using a different weave. Information as to what proportion of total production this type constituted was not available.

The management believed that the Quincy name and advertising would carry over from the regular blanket line to the crib blankets and the addition of these blankets would round out the Quincy line. The beginning production costs would be negligible. Since a large number of accounts were small retailers, the buyer would probably find the crib blanket in the same department as regular blankets.

The sales manager listed several disadvantages. First, he felt that crib blankets are bought to a great extent as gifts. In view of competition with several outstanding packages (cellophane topped), they would require costly sales promotion. Second, he felt that in many department stores crib blankets are sold in the infants' shop, which may or may not be within the home furnishing's blanket department.

Consequently, the direct sales force would have to contact another buyer, thereby increasing cost.

A suggested policy was that the Quincy Company sell the crib blanket under Quincy label to wholesalers only. By this method, only 60 per cent of the total accounts would be reached, and national advertising would be wasted if all the accounts did not carry the line.

Distribution of crib blankets by competitors varied considerably. One large manufacturer, with similar products, sold nationally through retailers and mail-order houses under the manufacturer's name. Variety stores also carried both nationally advertised brands and private brands. Other manufacturers sold through select outlets and cooperated considerably in promoting the blankets.

The sales manager felt that, because many women bought crib blankets as gifts, all-wool blankets would increase in popularity. Since the Quincy Company was not prepared to produce an all-wool crib blanket, it would be in a poor competitive position. Competition in all fabrics was expected to increase, and it was believed the company would soon have sufficient material to divert to another line.

QUESTIONS

1. Should the Quincy Company increase its sale of crib-cut blanket material to the Dover Company or manufacture crib blankets under its own label?
2. If the company decided to manufacture and sell the crib blankets under its own label, what channels of distribution should the company use?
3. Should the company use the same brand name if it decides to distribute the blankets?
4. Should the fact that many of the crib blankets are purchased as gifts be significant to Quincy Company in making its decision?

Marks Product Company — 63

PROMOTING A NEW PRODUCT

The Marks Product Company is a small chemical company located in New York. In the last ten years, sales have increased from $1,900,000 to $2,850,000.

Two years ago the company developed two new motor additives that were designed to clear the engine of harmful clogging gums, sludges, and other dangerous wastes. In tests that had been conducted, the additives seemed superior to the nationally advertised additives already on the market.

The products were marketed in two cans under the brand names of *Marks Additive A* and *Marks Additive B*. It was recommended that Marks Additive A be put directly into the crank case of the engine to be treated. The engine was started and the additive was sucked through the oil line by the oil pump, eventually reaching the bearings and all of the movable engine parts. The additive dissolved and loosened the wastes. After the engine was run for about 20 minutes, it was stopped and the crank case drained.

It was recommended that Marks Additive B should be poured into the carburetor air intake during this twenty-minute period when the engine was operating. In this way, the additive entered directly into the combustion chamber and acted on the carbons, gums, and varnishes around the valves and piston rings. These wastes were then blown from the chambers through the regular exhaust outlets of the engine.

Marks additives had been tested in different cars and were found to have no harmful effects. They were guaranteed to improve performance of the engine by giving it better acceleration and speed while reducing oil and gasoline consumption. The company offered to refund the sales price of $3.50 if the product proved unsatisfactory.

Marks distributed the products to service stations and motor part outlets in the local New York area. These outlets seemed quite satisfied with the products and stated that products of this nature had been in demand for some time.

The products were also sold to a few diesel engine and locomotive manufacturers. They believed the additives could be used extensively in the maintenance and care of these engines.

Marks began its advertising campaign by direct mail to automobile owners in the New York area. Explanatory circulars were sent to service stations and garages and the company's three salesmen visited these potential outlets to try and get them to handle the additives. Point-of-purchase displays were also designed and were distributed to the retailers who agreed to sell the products. These displays consisted of streamers, signs, display racks, and other similar promotional devices.

The company had been established about ten years earlier, and, before one of the chemists had developed the additives, it had spe-

cialized in a variety of technical grade sodium phosphates and their by-products.

As a result of the favorable comments and the encouraging sales of the additives in the local area, the company began to call on the service stations and garages outside the New York area. However, in the wider area, the sales resistance was great. Dealers pointed out that although the Marks additives might be equal to or even better than brands already established on the market, they were doubtful that the product would sell as well as the nationally advertised brands.

At the same time, although the diesel locomotive firms increased their demand for the additives, the quantity discounts given by the company left it with only a small profit margin. It was questionable if the company could profitably expand its sales to the diesel firms in other sections of the country because of high shipping cost.

On the other hand, the retail market among the service stations and garages appeared to have extensive potentials. One of the manufacturers of another additive in the first year of promotion sold well over 2,000,000 cans of its product. Another company sold over 1,000,000 cans in its first year. Both of these companies credited their high volumes to national distribution and advertising.

Independent surveys indicated that 80 per cent of car owners were potential purchasers of a motor additive product. Sixty per cent of these, however, stated that they would only buy a brand that had been well established and had been proved on a nation-wide basis. They also indicated that they would hesitate to buy a local product.

The president of the Marks Product Company suggested a promotion plan to increase sales. He favored a progressive method by which the advertising appropriations would be set for the first six-month period and would be increased by 25 per cent during each successive six-month period. In this way, he believed that increasing sales would provide the revenue for advertising expenditures. He recommended that local radio, television, and trade papers be used in the marketing mix. He also recommended that five additional salesmen be added to the staff at once.

Four of the other five directors of the company agreed with the progressive advertising plan but did not believe it would be necessary to increase the number of salesmen. They suggested that the three present salesmen could increase their territories. This would keep the salary expenses down and would provide more funds for advertising.

An advertising agent was asked to estimate the initial appropriation that the company would have to make for the first six-month

period. After studying the problem, the agent reported that the company should appropriate $25,000 for advertising expenses.

When this recommendation was presented to the board of directors, the one dissenting director stated that the company should not attempt direct sale of the additives. He believed that the company could not obtain a large enough segment of the market in the face of the competitive brands that were already established. He thought that an additive was the kind of product that was very difficult for the consumer to judge and although Marks had a somewhat superior product, there was not sufficient product differentiation to justify a large advertising appropriation. As a result, he recommended that the company either continue to concentrate its efforts in the local area or sell the products to a large oil company.

QUESTIONS

1. How important is it for a small company to have a major product differential before it attempts to introduce a product of this kind?
2. Of what importance is a sales force in getting outlets to handle the Marks additives?
3. Point out the advantages and disadvantages of the promotional plan of the president.
4. What course of action should the company take?

The Strong Company — 64

IMPORTANCE OF DESIGN IN THE INDUSTRIAL FIELD

The Strong Company has manufactured and sold a line of single phase electric motors for over 40 years. The single phase alternating current induction motor is used to drive a variety of commercial and industrial machines as well as a variety of home appliances. It was developed many years after TESIA's original polyphase A.C. electric motor, for specific use in those areas where three phase electric power is not available.

Strong manufactures motors in sizes five horsepower and up, rather than smaller sizes such as fractional motors used in home appliances.

The greatest market for these larger motors is found on the farm as drives for crop dryers, barn cleaners, and pumps. With the advent of R.E.A. many thousands of farms were electrified with single phase power. Large government purchases of crops have also stimulated the use of crop dryers since most crops must be completely dry for storage.

Strong has led the field in this particular motor line as it has in most electric motor and generator products. Aware of an increasing farm market the company drastically altered its single phase motors during the past year. This move was more than a redesign as Strong discontinued its repulsion induction type motor, replacing the old line with new capacitor type motors. The old line was burdened with a commutator maintenance problem as well as excessive weight. By the use of capacitors in starting single phase motors, the commutator was eliminated and motor weight was considerably reduced. Strong pioneered in the use of a centrifugal switch mounted on the motor shaft for removing the capacitors from the circuit once the motors were started. Competitors continued to use a separate relay system of removing the starting capacitors once the motor started. This arrangement was subject to line voltage fluctuations which increased the possibility of motor winding burn-outs for the owner.

The new motor line met with more than average success. Farm machinery manufacturers bought the various motor ratings in quantity, realizing lower prices with quantity discounts. Although sales were high, Strong continued to try and improve the product; for instance, the engineers added screens to motor openings to frustrate rodents looking for a warm nest in the farmer's barn. Exceptional high quality insulation materials were added to protect motor windings from weather effects in the outdoor farm application. Various additional motor enclosures were considered by the company; i.e., totally enclosed construction for those applications involving severe weather conditions or corrosive industrial atmospheres. Low speed motors, used in driving oil pump jacks in some oil fields, were considered as an extension to the product line. Explosion proof motors for use in hazardous atmospheres were also discussed as a possible market. In all three of these considerations it was decided that the market was not of sufficient size to warrant the development expense and the required addition to manufacturing facilities.

Another interesting step was taken when Strong decided not to offer single phase motors above 7½ horsepower. The company's

market research group determined that the sale of 10 horsepower motors would be very small, perhaps 50 units per year. The higher rating represented complicated and expensive design considerations that the small yearly sale would not support. Recently, it has become apparent that a lar market exists in single phase motors above 7½ horsepower than w stimated by the research group. The company's most successful competitor, Andrews Machine Company, offers single phase motors as large as 15 horsepower.

The decision to limit single phase motor production to the most popular ratings and construction appeared to be correct at the time, considering production costs and the available market. However, Strong has a reputation throughout the country as an "across the board" supplier of electrical equipment in most of their known variations. It is characteristic of the dynamo business that the manufacturer who expects to receive volume standard design business must also provide the occasional special motor.

Salesmen for the company have expressed dissatisfaction with the lack of variety in the single phase motor line. The firm's largest single phase motor customer, a crop dryer manufacturer in the mid-west, has complained when Strong has not been able to supply totally enclosed motors for an occasional application. This manufacturer has designed the Strong motor into his crop dryer; the use of another brand complicates mounting, instruction material, and advertising. The crop dryer manufacturer has expressed surprise that the large Strong Company cannot invest a few extra dollars so as to offer a complete motor supply.

Andrews Machine Company has prepared a strong bid for an important share of the farm motor market, introducing a new design with a vigorous sales program. In planning its new motor, Andrews was aware of the fact that Strong's motor quality was not to be easily exceeded. However, Andrews incorporated a new type of switching mechanism in its design, one that would not clog with dirt and dust, and, therefore, appealed to farmers. Andrews was also able to reduce weight to a value lower than that of any existing single phase motors. Andrews' engineers designed a motor with higher power factor which tends to reduce current overload on power lines. This meant less flicker and appliance disturbance in the farm home.

Andrews offered the full line of motors in its price handbooks—totally enclosed, low-speed motors for oil well drive, and explosion proof motors. Its redesign included motors through 15 horsepower.

The company's promotional material emphasized a complete line with special motors available as well as the standard, high-volume motors. Although Andrews' new line was not regarded as revolutionary, all of the new features afforded excellent selling points.

Confronted with a strong bid for an important share of the existing farm motor market, Strong's management has evaluated the probable effect of Andrews' redesigned motor. They feel that their competitor's motor is not actually superior to their own design by any considerable degree. Andrews' insulation system, for example, was inferior to that presently offered by Strong.

The manager of engineering has been quick to point this out. Also he feels that the Strong motor is light enough that even a 20 per cent weight reduction will mean little to crop dryer manufacturers. In his opinion, improved power factor over Strong's present 90 per cent would mean little to the farmer and would be only a temporary talking point with the utilities. The manager of engineering regards this motor as one of the best he has designed, particularly from one standpoint of a good balance of desirable electrical characteristics. He is not in favor of a redesign that he estimated could be done at a cost of $50,000.

The manager of manufacturing installed new machines to produce the present line just two years ago. His experience with the present motor has been excellent. This is largely attributed to the fact that all ratings are built in a single frame size. He points out that production has been high and set at a relatively short production cycle, permitting quick shipment in quantity. Raw material stocking has presented no problem due to the similarity of all 12 ratings the company offers. This has not been true of capacitors which are different for each rating and the manager of manufacturing would like to see something done about this if a redesign is scheduled.

The sales manager argued that Strong's sales lead would definitely be jeopardized by Andrews' redesigned motor. He emphasized that Andrews had taken on a new look with a change in motor management and extension of its sales organization through new offices in the midwest. It is also well-known that Andrews is partially owned by a large farm machinery manufacturer. He was also impressed by Andrews' ability to offer single phase motors in a wide variety of constructions and continue the larger sizes. He stated that estimates made during the past year of lost business due to the nonavailability of various constructions and ratings were correct to the amount of the special

business turned away. In fact, much standard motor business was lost due to Strong's limited offering in this line. Power company officials had already commented favorably on Andrews' progressive move in providing better electrical characteristics. The sales manager recommended to the general manager that a redesign program be initiated immediately.

The general manager tentatively decided against a redesign of Strong's single phase motor line. He considered that a large scale redesign program for all of the Integral Motor Division should be made in about four years, and he believed any ground lost to Andrews could be regained at that time. The general manager also desired further discussion with the power companies as to their estimate of the future general use of large single phase motors. Part of the $50,000 development expense estimated by the chief engineer could be spent for increased advertising directed at the farm market.

QUESTIONS

1. Should Strong redesign the single phase motor line at the present time?
2. How important a part do you believe that design plays in selling an industrial product of this nature?
3. How might the $50,000 be effectively used in advertising the single phase motor in the event the company does not redesign the motor?

ELEVEN

Sales organization

The M. D. Lytel Company — 65

PLANNING THE SALES ORGANIZATION FOR A COMPANY

M. D. Lytel and his sons formed the M. D. Lytel Company and bought out the Banks Co., a wholesale distributor of metal giftware. The items that Banks distributed included a line of silver-plated hollow ware and a line of copper and brass jardinieres, silent butlers, wall pockets, lamps, letter boxes, and other similar items. These products found a ready outlet in gift, flower, department, furniture, and jewelry stores. Some drug, hardware, beauty salons, and paint stores also carried a few of the items.

The territory in which the Banks Company sold consisted of an area within almost a fifty-mile radius of New York City. It included Connecticut, New Jersey, Long Island, and Westchester. This terri-

tory was covered personally by the two owners. In its last year, the Banks Co. had gross sales of $50,000 with a gross profit of $10,000.

When the M. D. Lytel Co. bought out the Banks Company, an extensive study was made of competition, potential market, and selling techniques used by the gift trade. The Lytel Company did not check on consumer acceptance of the merchandise because it had been well received for the past three years by such outstanding stores as Lewis and Conger, Goldfarb chain of flower shops, Sloane's, B. Altman's, and numerous other shops of the better type.

Chart I shows a geographical breakdown of the main classifications of stores the M. D. Lytel Co. believed might handle its products.

Chart I

Lytel's potential outlets

	Florists	*Gift*	*Furniture*	*Dept.*	*Jewelry*
Middle Atlantic	8444	1028	5822	4420	6249
Middle Western	6834	716	5821	3594	4949
Western	3593	287	5941	2605	3702
Pacific Coast	3918	598	2711	1434	2828
Southern	4962	408	9189	8163	4392
New England	3898	478	1843	2025	2047
Total	31,649	3515	31,227	22,241	24,167

Total all types—112,799

There are three competitors that handle the same lines. Two are located in New York and one in Chicago. The two in New York operate on a national scale, and the one in Chicago operates locally. One of the national organizations is large, whereas the other is of medium size. The Chicago company is relatively small. All three companies carry lines other than those sold by the M. D. Lytel Co. They are, however, the only organizations that handle the lines carried by the M. D. Lytel Co. because the factories that produce these lines follow the practice of selective distribution.

The following information was available on how sales were obtained by other companies in the gift field:

1. Large national organizations, comprising about 10 per cent of the field:
   (a) From showroom, manned by two to four salesmen.
   (b) By full-time salesmen on the road—usually five to ten men.

(c) By commission salesmen on the road and in their own local showrooms—usually ten to twenty men.
(d) Through consistent advertising in national trade publications.
(e) Through extensive direct mail advertising.
(f) Through exhibitions at shows throughout the United States.

2. Medium-large national companies, comprising about 25 per cent of the field:
   (a) From showroom, manned by one to two salesmen.
   (b) By full-time road salesmen—usually three to four men.
   (c) By commission salesmen—usually eight to twelve men.
   (d) Through consistent advertising in national trade publications.
   (e) Through direct mail, during buying seasons only.
   (f) Through exhibitions at local shows—and by sharing space at out-of-town shows.
3. Medium national companies—about 50 per cent of the field:
   (a) From showroom—secretary pinch-hits as salsewoman.
   (b) By full-time road salesmen—one or two men.
   (c) By commission salesmen—one to five men.
   (d) Through spotty advertising in national trade publications.
   (e) Through direct mail—spotty.
   (f) Through exhibitions at local shows—shared space only.
4. Small local companies—about 15 per cent of the field:
   (a) By road salesmen—usually the owner.
   (b) Through spotty direct mail efforts.

The M. D. Lytel Company does not have showroom space in New York's Gift Building, 225 Fifth Avenue. Although space is available in other buildings, it is not too desirable. There is a possibility that another representative, now occupying space in the Gift Building, would show the M. D. Lytel's Company line. Lytel is well financed and is in a position to establish itself on a national basis if desirable.

QUESTIONS

1. What type of sales organization should the M. D. Lytel Co. set up?
2. Should Lytel attempt to put its operations on a national or sectional basis or continue on a local basis? Why?
3. What procedures would you recommend that Lytel follow at this time?
4. What advertising program should Lytel use?
5. How should the salesmen be compensated for selling items of this kind?

Norwich Publications — 66

DEVELOPING AN ADEQUATE SALES ORGANIZATION

Fifteen years ago Norwich Publications purchased a trade paper. Largely through the efforts of the two co-owners, and with very little additional sales or office help, the business expanded, and advertising volume became large enough to return a satisfactory profit. Within five years the company had reached a position in which, on the basis of an average monthly issue of 47 pages of advertising and 50 per cent editorial matter, it was returning a net profit of $10,190.

Although a large part of the advertising was steady and secure, strong competition from two other trade papers in the same field, with similar coverage and circulation, made continuous intensive selling effort by Norwich necessary to maintain the position of its publication "A." Fifty per cent of the advertising prospects were located in the northeastern section of the United States, 40 per cent in the Midwest, and 10 per cent in the western states. Sales were made by three salesmen working from the home office in New York. All traveled extensively, dividing the metropolitan area, the first two alternating trips to the same prospects in the Midwest and the third covering large cities in the East exclusively. Additional sales were made when prospects were solicited at national and local conventions, and a few by correspondence. Very little advertising or printed promotional material was used.

There was no definite assignment of accounts or responsibility for them. The two leading salesmen had interests in the corporation, and no conflicts arose. The third salesman covered his territory exclusively and was permitted to use his own discretion about the frequency of trips and the calls to be made. In the New York metropolitan area, calls were distributed among salesmen at the discretion of the publisher. Frequency of calls was left to the judgment of individual salesmen.

Prospect records were kept on index cards on which were listed the company name and address, product, names of officers, date, results of calls made, and any other information considered noteworthy. These cards were arranged geographically and were referred to when sales trips were planned.

It was the policy of the company to pay all salesmen straight salary

without commissions. The publisher believed that this method of compensation resulted in a better, long-range kind of sales effort, minimized high-pressure tactics, and encouraged cooperation among the salesmen. Increases in salary would serve as the reward for increases in business volume.

The publisher's confidence in the ability of a small sales force, working from one office, to cooperate fully was reflected also in the handling of traveling expenses. No limitations or rules were set to govern such expenses, all of which were paid by Norwich; the management considered that this method had worked out very satisfactorily.

For the next five years advertising volume continued to increase steadily, but profits decreased slightly. The management attributed this to increasing costs of printing, paper, and binding. It would have liked to increase rates, but could not because it followed a policy of maintaining a rate schedule similar to that of the leading paper in the field. Norwich felt that advertisers would not appreciate the reason for a rate increase if its competition held the old rates. For many years Norwich and another of its competitors had immediately followed with a smaller change any change in rates by the leading publication.

Four years ago the management decided to expand the activities of Norwich Publications. It felt there was an excellent opportunity to start a new publication in a field related to its original paper. This new field, in which there was at that time only one trade paper, offered promise of rapid expansion. Leading executives in the industry held high hopes for its future development. Norwich also felt that, since the fields were related, the company's contacts with advertisers, through Publication "A," would provide enough business for a good start on the new paper. When Publication "B" came out, these contacts did, in fact, prove to be of great help in selling advertising for the new paper.

To expand its sales activity, Norwich decided to replace one salesman, whose work was unsatisfactory, and add another. All salesmen were to continue to work on the same basis as before, except that all were to cover the Midwest jointly; the eastern area was to be divided between the two new men, and accounts in the New York metropolitan area assigned among all four. The two leading salesmen planned to decrease their traveling and give more time to the training of the new men. No commissions were planned. An analysis of

the salesmen's salaries and traveling expenses are given in Schedule I.

The management decided to have all salesmen sell space for both publications. Norwich felt this would avoid duplication of traveling expenses and enable salesmen who became friendly with prospects to sell both papers under the combination rate offered and to take maximum advantage of the relationship between the fields covered by Publication "A" and Publication "B."

Within four months, Norwich met unexpected competition from two other publications that followed it into the new field. It maintained its position as second in the field on advertising volume, still well behind the original publication in the new field, but its expansion was delayed greatly by this added problem.

In an effort to expand its coverage of prospects further, two West Coast representatives were hired on a straight 20 per cent commission basis to sell space for Publication "B" only. The publisher did this reluctantly, feeling that such representatives merely contacted easy prospects who would probably advertise anyway, but he hoped to obtain at least some coverage by this method.

In addition, a salesman was hired on a straight salary basis to work from a midwestern office. This new man was to handle both publications, covering 75 per cent of what had formerly been the midwestern territory. Home office salesmen were to continue to cover the other 25 per cent.

An increased volume of printed promotional material was used, mostly for Publication "B."

Publishing costs continued to rise at an even greater rate. The volume of advertising in Publication "A" increased to an average of 57 pages per month, although editorial material still comprised 50 per cent of the publication. Advertising rates in Publication "A" had increased 20 per cent.

Publication "B," meanwhile, had been developing slowly. Its advertising rates, which were also dictated by the leading paper in the field, remained the same. Advertising volume, in an average monthly issue increased from 15 pages to 21 pages in the first year with 60 per cent of editorial material in both years.

In spite of the increase in advertising volume and rates, profits from Publication "A" decreased severely. (See Schedule II.) Publication "B" was still operating at a small loss, even without bearing its full share of overhead costs. (See Schedule III.) Because of this situation, it was becoming increasingly difficult for Norwich to allow the profits

from Publication "A" to carry the cost of developing Publication "B."

The management felt that its expanded sales force was not producing the volume it should, but was not sure where the fault lay. The two top salesmen had not been able to decrease their activity as planned. Though the management was confident of the potentialities of Publication "B," it felt it was losing business on the established paper by spreading the sales effort.

The publisher had little confidence in salesmen who did not work from the home office. He felt that they lost contact with new developments and methods and tended to be negligent. He suggested that the midwestern salesman be eliminated, and that territory be covered from the home office as previously.

Schedule I

Salesmen's salaries, traveling expenses, and net sales by publications

Salesman	*Salary*	*Traveling expenses*	*Total expense*	*Sales publication A*	*Sales publication B*	*Total sales*
Year I						
Gray	$ 6,000	$ 2,430	$ 8,430	$33,170	..	$33,170
Fulton	6,000	3,160	9,160	39,610	..	39,610
Thomas	3,000	2,050	5,050	9,490	..	9,490
Total	$15,000	$ 7,640	$22,640	$82,270	..	$82,270
Year II						
Gray	6,500	1,390	7,890	30,420	6,850	37,270
Fulton	6,500	3,630	10,130	35,370	8,780	44,150
Smith	2,800	3,200	6,000	10,220	4,300	14,520
Taunton	2,800	2,810	5,610	9,590	3,010	12,600
Harris*	2,200	3,400	5,600	3,730	1,100	4,830
Jones†	770	..	770	..	3,870	3,870
Charles‡ ...	230	..	230	..	1,190	1,190
Total	$21,800	$14,430	$36,230	$89,330	$29,100	$118,430
Year III						
Gray	6,500	2,020	8,520	27,380	7,990	35,370
Fulton	6,500	3,120	9,620	32,020	9,810	41,830
Smith	3,500	3,350	6,850	17,710	6,410	24,120
Taunton ...	3,500	2,690	6,190	15,460	4,970	20,430
Harris	4,500	5,370	9,870	11,790	2,220	14,010
Jones	1,070	..	1,070	..	5,380	5,380
Charles	170	..	170	..	850	850
Total	$25,740	$16,550	$42,290	$104,360	$37,630	$141,990

* Midwest; 6 months only.
† West Coast, 10 months only.
‡ West Coast; 8 months only.

Schedule II

Publication A

Yearly profit analysis

	Year I	*Year II*	*Year III*	*Year IV*	*Year V*
Net sales	$77,240	$80,130	$82,270	$89,330	$104,360
Expenses	67,050	70,940	74,010	86,110	102,020
Profit	$10,190	$ 9,190	$ 8,260	$ 3,220	$ 2,340
Expenses					
Operating	$28,520	$30,570	$32,150	$38,400	$ 48,950
Selling	25,610	26,280	27,010	31,620	35,570
Administrative	12,920	14,090	14,850	16,090	17,500

Schedule III

Publication B

Yearly profit analysis

	Year IV	*Year V*	
Net sales	$29,100	$37,930	
Expenses	30,900	38,950	
	$ 1,800	$ 1,020	(Deficit)
Expenses			
Operating	$14,050	$18,390	
Selling	12,980	16,230	
Administrative	3,870*	4,330*	

* Includes only administrative expenses directly attributable to Publication "B."

QUESTIONS

1. Should the sales force be reorganized?
2. How can development of the new publication be accomplished?
3. Should Norwich sell Publication "B" at a small profit and concentrate on the established publication?
4. Did Norwich follow a good policy in the payment of its salesmen?
5. How important is it for the salesmen to work only from the home office?
6. Recognizing that Norwich must sell advertising on a national basis, what plan of selling would you advise?

Murphy Associates — 67

EVALUATING THE DISTRIBUTION PROBLEMS OF A MERGER

Murphy Associates, a firm of management consultants, was hired to make a study of the Universal Farm Machinery Company and of the Premium Agricultural Implement Company in order to determine whether or not it would be advisable for them to merge.

This merger was considered because the President of Universal believed that substantial economies would result from combining the manufacturing facilities of the two companies. He felt that tractor manufacture could be centered at one plant, combines and threshers at another, and so forth, with lower unit costs resulting from increased unit production.

The Murphy Associates senior believed this possibility worthy of study and, after a discussion with the sales managers, decided to investigate the possible advantages of combining the distribution systems as well.

The companies were of approximately the same size, with net sales of about $80,000,000 in both cases. Both companies sold their lines of farm machinery through dealers who were serviced by a system of regional sales offices and sub-branches with blockmen who were in continuous contact with the various dealers. Universal had a list of 2,100 dealers, whereas Premium had 1,900. The companies preferred to have dealers who handled their line exclusively, but in practice, both had a considerable number who also handled some competing products.

Analysis of the two lists of dealers showed that in about 65 per cent of all communities in which one or the other company was represented, both had dealers. Analysis of sales volumes by dealers showed a wide variation—from $2,000 to $250,000 per year. The average annual sales volume per dealer was approximately $30,000, at retail price, for dealers of both companies.

Although detailed financial data on dealer operations were not available, the application of data developed by an NRFEA survey,* for dealers with sales volumes in that year of from $0 to $75,000 was helpful in visualizing the situation of the "average" Universal or Premium dealer. See Table I.

Table I

National Retail Farm Equipment Association Survey
Cost of doing business
(Group A—$0-$75,000)

	Dollar volume	*Percentage analysis*	*Percentage of net sales*
Sales:			
New goods	$34,735	60.41	
Used equipment	1,646	2.09	
Repair parts	9,689	16.83	
Service labor	2,566	4.46	
Other lines	8,861	16.21	
Total sales	57,497	100.00	100.00
Cost of sales:			
New goods	28,087	62.57	
Used equipment	1,323	2.94	
Repair parts	6,590	14.68	
Service labor	2,316	5.16	
Other lines	6,578	14.65	
Total cost of sales	44,894	100.00	77.89
Operating margin	12,603		22.11
Other income	1,617		2.81
Total operating margin	14,220		24.92
Total expenses	8,869		15.41
Net operating profit (before tax)	5,360		9.51

* The $30,000 approximation for average sales at retail by Universal and Premium dealers was most nearly comparable with the sum of the "New Goods" and "Repair Parts" components of sales as shown by the NRFEA survey data appearing in Tables I and II. It represented about $20,000 in sales at the companies' price to dealers. The $80,000,000 sales volume shown for Universal and Premium when divided by numbers of dealers did not yield a $20,000 average. However, because of export, industrial, and other sales not transacted through local farm implement dealers, the average volume was $30,000.

	Percentage of operating margin	*Dollars of operating margin*	*Percentage of net sales*
New goods	52.75	$ 6,648	19.14
Used equipment	2.56	323	20.00
Repair parts	24.59	3,099	32.00
Service labor	1.98	250	9.74
Other lines	18.12	2,283	25.76
	100.00	$12,603	22.11

The dealers of both companies reported that the demand for all their lines exceeded the supply that they were given. This demand was attributed to wartime shortages, large cash reserves in the hands of farmers, high farm prices and income, and bumper crops.

The dealers, many of whom experienced a number of years of low sales volume during the thirties, complained that the factories were not making sufficient effort to keep up with the demand. As a result, the dealers, who sorely needed a few years of good earnings, owing to short supply, were unable to capitalize on this opportunity.

Individual interviews with well-established dealers and with farmers were conducted by Murphy Associates in such a way as not to disclose the identity of their clients. These interviews revealed that the prime factors that determined a dealer's standing in his community were his reliability as a source of parts and repairs and his reputation for fair dealing and good service. Relatively little emphasis was placed on the quality of the line, because there was not a great deal of difference between the competing products in the minds of the farmer-customers.

These dealers and farmers also pointed out that special purpose implements, such as corn pickers and combines, represented substantial investments that had to be carried by the farmer throughout the year for the sole purpose of having the implements available for one or two weeks at harvest time. Failure of such an implement could arise only during the short period of its use. If the implement was not repaired immediately, a day's delay might mean considerable financial loss to the farmer. For this reason, it was said, farmers considered parts and repair service as the most important factor when determining from which dealer they would buy.

These dealers believed that a substantial inventory of service parts was necessary for successful long-term operation in any community and stated that a stock of $10,000 was a minimum amount.

A check with data compiled by the National Retail Farm Equipment Association revealed important information with respect to dealer finances and operating results. See Table II.

Table II

Sales classification	
Group A	$ 0- 75,000 per year
Group B	75,000-150,000 per year
Group C	150,000-250,000 per year
Group D	250,000-per year and over

AVERAGE—ALL GROUPS

	Amount	*Per cent to total*
New goods	$103,971	56.37
Used equipment	9,204	4.99
Repair parts	33,568	18.20
Service labor	10,144	5.50
Other lines	27,557	14.94
Total	$184,444	100.00

INVENTORIES

			Percentage of service parts	
	Beginning	*Closing*	*Beginning*	*Closing*
Group A	$10,457	$16,065	53.2	49.7
Group B	15,389	21,989	50.8	47.2
Group C	23,959	32,974	48.6	45.1
Group D	42,772	31,633	45.4	44.5

INVENTORY TURNOVER

Group A	4.8 times
Group B	5.4 times
Group C	6.4 times
Group D	7.5 times

National Average—6.6 times

Because average sales volume per dealer for both companies was about $30,000 per year, exclusive of other lines, it appeared that the majority of both companies' dealers would fall in Group A, and well below the averages shown by NRFEA members. Using the $0-$75,-000 volume group as a criterion for considering the "average" Universal or Premium dealer, it appeared that they needed strengthening.

The sales managers of both companies agreed that manufacturing economies would result from a merger and that the problems with respect to trade names, distinctive colors, markings, and features could be solved. However, they objected to the merger on the grounds that a combined company would have to cancel a large number of dealer contracts. The "canceled" dealers would secure competitors' franchises and take their farmer customers with them. Furthermore, neither the companies nor Murphy Associates believed that a comprehensive survey of dealers could be made without causing unrest and apprehension among many dealers.

QUESTIONS

1. As the senior in charge of this job for Murphy Associates, how would you proceed from this point?
2. What action would you recommend in your report to the Universal and Premium Boards of Directors with respect to the advantages or disadvantages of the proposed merger from the marketing standpoint?
3. How significant is the fact that the "canceled" dealers would handle competitors' lines?
4. How might you make use of the NRFEA data?

The Balance Company — 68

MEETING SALES QUOTAS

The Balance Company is engaged in the manufacture and sale of paper bags, boxes, waterproofing, and other packaging materials. It also operates a printing plant that has specialized in making labels.

The company has its headquarters in a large eastern city and employs 2,000 people. It has an annual sales volume of approximately $30,000,000.

The Balance Company operates three sales divisions in the United States: the eastern section with headquarters in New York, the midwestern section with headquarters in Chicago; and the western division with headquarters in Los Angeles. Each division is headed by a Division Manager with a sales staff to cover the potential customers in each area.

The Division Manager is responsible for selling the largest possible volume that can be marketed profitably and for attaining the sales quotas for his division. It is also the Division Manager's responsibility to see that his division is run as efficiently and economically as possible.

The Division Managers are directly responsible to the Vice President and General Sales Manager, whose home office staff consists of a Product Manager for each major product. This Product Manager is a specialist in his own field and is responsible for providing marketing assistance and sales promotion programs to the various divisions, to initiate action for improvement in products, and to coordinate with plant management in efficient and economical production of the

product. The Product Manager has no authority over the Division Manager, and can only assist when requested by the Division Manager.

Several months before the start of each fiscal year, a meeting is held at the home office, attended by Management, Division Managers, and Product Managers. At this meeting the next year's sales quotas are set for each product according to the estimated capacity of the equipment, and the amount of volume necessary to maintain maximum productions and minimum costs. These quotas are extended into an over-all operating budget and it then becomes the responsibility of the Division Managers to see that these quotas are met.

At the last Managers' meeting, it was decided to expand the special press equipment used in the manufacture of labels in order to expand the market and better serve the customers.

In order to maintain full production on this new added equipment, it was found that it would be necessary to sell an additional $750,000 volume of labels in the mid-west and eastern divisions or operate the equipment at a loss. The sales quotas for labels were, therefore, increased in these two divisions to meet the increased volume. It seemed at first that it would be an easy task to reach these new quotas because of the company's natural growth and the extra sales effort expected.

By the middle of this year it became apparent that these new quotas were not being met. Furthermore, sales of labels in the midwest and eastern division were actually falling behind the previous year's level. The new equipment was operating on a four hour basis only, instead of the eight hours necessary for economical production.

A meeting was scheduled by the Vice President and General Sales Manager to devise means to bring the sales volume up to the required quota. Attending this meeting with the Vice President and General Sales Manager were the Product Manager and the two Division Managers concerned. Prior to the meeting the Vice President and General Sales Manager had instructed the Product Manager to study the problem and recommend what steps to take.

At the meeting the Product Manager said, "When we took on the expansion program, it looked like an easy task to reach the quota because our natural growth, which is the growth of the existing accounts, looked as though it would account for the greater part of additional dollar volume that was needed. However, the volume decreased this year because we lost three major accounts. These three accounts were lost at the very beginning of the fiscal year. It was obvious, at that time, that if we were going to meet the budget, we

would have to get new accounts. Our history of new label accounts in these divisions has not been too satisfactory.

"The loss of the three major accounts called for a change in thinking and planning. Three things should be considered:

1. With the cooperation of the Product Manager, decide on a course of action so direction can be given to guide and control the sales effort.
2. With the aid of the Product Manager, assist in person with the sales force in soliciting the fields chosen for additional business.
3. With the Production Manager, control and participate in the necessary follow-up required to develop the new accounts. Show by example that this is a division promotion and not one that is sponsored by the home office. These salesmen have loyalty bonds tied only to their immediate boss, the Division Manager. Without his participation in the promotion, the program is doomed to failure.

"It has been pointed out in previous Division Managers' meetings that the big dollar volume we have in labels is made up from orders received from candy, bakery, and meat packaging firms.

"From the list of accounts sold in these divisions, it appears we have disregarded the bakery and the meat industries. All of the existing accounts are confined either to candy firms or to miscellaneous groups that are outside the classification of our three main products.

"When the Division Manager does not direct the sales personnel to assure adequate coverage, the field is not solicited. My recommendation, therefore, would be a closer liaison and communication between Division Manager and the salesmen.

"The only way this close cooperation can really work is by working with the men in the field. Observing first hand the condition of the situation and opening the door for new accounts. You might say that if the salesman had the knowledge he could really do a job in selling. I disagree. The technical problems are eliminated in the first call. What these accounts need after this is follow-up. It is obvious that the Division Managers do not have the time to call on each account with the salesmen. However, the Division Managers must call on enough of the accounts with the salesmen to be sure that they are following the recommended procedure so that we will get as complete coverage with the hard accounts as we do with the easy accounts."

The Division Managers stated that the lack of knowledge and understanding of the many different kinds and usages of labels had made it difficult to sell this product with any degree of success. They

felt that their salesmen lost interest in soliciting accounts for this product because of their lack of experience, which made it extremely difficult to service the accounts.

They believed that, because of the distances involved, they did not get as much help from the home office as perhaps was needed. The midwest manager also stated that he had arbitrarily reduced his quota on labels because he believed it was too high and out of reach.

The Vice President expressed the views of management as follows:

"Let's take the budgets and quotas apart and find out what we mean by them and make sure that everyone understands the necessity for performing in relation to this budget. If you will recall, during last year's managers' meeting we spent a considerable number of hours describing the expansion philosophy and policy of the company. All of you contributed to that philosophy and helped to set those policies. It was the considered opinion of the group that with the proper techniques and sales programs and the growth that we anticipated through your efforts, we should increase the capacity of the printing plant by installing special equipment to get more label business.

"We stated at the time that this would involve an increase of $750,000 in sales. The budgets and the quotas were made on the basis of the need of this equipment.

"The quotas are 'task assignments,' not merely helpful figures or wishful thinking about what we would like to see happen if we had our way. These are mandatory requirements. This sales quota is the necessary volume, and the job of getting this volume within the policy framework of the company is the meat and potatoes of your job as Division Managers. We all know that involves a wide range of management functions and that the priority of these functions will be different in each branch. However, the task of each Division Manager is to reach that sales quota that has been deemed necessary to meet the manufacturing facilities of our plants and equipment.

"There is some misunderstanding that the various offices may stress the product they prefer. Go back to the detail of this budget and task quota. You'll find out that the options are confined in that quota; the product breakdown and the product requirements for volume are the result of the integration of the company based on its equipment and growth patterns that are worked out here. Some of your own sales histories and background are specialized in certain of our products.

"It does not follow then that your office can specialize in the product with which you are most familiar. Those product lines in which you have the least experience are the areas where you need most the counsel and support and sales assistance of the Product Managers.

"Let's review one facility for sales expansion and development that we talked about at last year's meeting and intended to use this year—the help of the Product Managers. If you remember, we spent quite a few hours talking about the fact that these people were available, on call, and represented, as far as you were concerned, the capacities of another and expert salesman in their line, available to be used in your territories."

QUESTIONS

1. How can the Division Managers raise the sales level to meet their quotas for the labels?
2. Should the Balance Company use a special sales force to sell labels in these two divisions?
3. How can the Division Managers use the services of the Product Managers to the best advantage?
4. Are the quotas being set and used for the proper purposes in the company?

Riesen Company — 69

RATING SALES MANAGERS

The Riesen Company, a manufacturer of floor coverings, building materials, and paints, sold its products to distributors and dealers throughout the United States and in several foreign countries.

Although Riesen's sales volume had increased during the past five years, the executives believed the company had failed to attain its fair share of the market. They believed the reason for this failure was that the sales managers were not meeting their responsibilities fully.

Sales managers were selected on the basis of a personal rating, which the Vice President of Sales gave them after a personal interview and an evaluation of their records.

Riesen employed 200 salesmen and 20 sales managers. Ten of the sales managers were in charge of building material offices in Baltimore, Boston, Dallas, Chicago, New York, Cincinnati, Detroit, Kansas City, Portland, and Jacksonville; four of the managers were in charge of floor covering offices in New York, Chicago, Los Angeles, and Denver; the other six managers were in charge of paint offices in Seattle, St. Louis, Boston, Nashville, Rochester, and Pittsburg. The sales managers'.positions were about the same insofar as authority, responsibility, and pay were concerned. They differed primarily on the basis of the products handled.

As a result of the retirement of eight senior sales managers, experienced salesmen in the company were selected by the Vice President to fill these vacancies. As the products were backed by extensive regional and national advertising, the Riesen salesmen were well accepted by the trade. However, competition had been so intense during the past few years that Riesen had not attained its sales quotas.

At a meeting of the executives, it was decided that many of the sales managers were incompetent and were not properly directing and training the salesmen. The executives believed this failure of sales managers was their major problem.

As a result, it was recommended that the Vice President and Personnel Director rate all sales managers by a suggested rating scale to determine which sales managers should be replaced so that competent men could be put in the jobs. The rating plan suggested is given in Exhibit I.

Exhibit I

Suggested rating scale

General weight		
25%	1. Experience	
	70%	a) as salesman.
	30	b) as supervisor.
30%	2. Personality	
	20%	a) relationship to salesmen: how high is the morale of salesmen under him.
	15	b) relationship to firm: conscientiousness.
	10	c) ability to gain the most from salesmen.
	5	d) method of enforcing discipline: strict, lax, unfair.
	50	e) ability to gain friends for the company and to work harmoniously with the company's customers.
	100%	

15% 3. Efficient planner
- 40% a) organization of future sales.
- 10 b) correction of mistakes.
- 30 c) amount of control over sales: expense, volume, margin.
- 20 d) efficiency of a standard of performance.

100%

10% 4. Analytic ability
- 15% a) ability to appraise personnel correctly.
- 50 b) ability to recognize and take advantage of changes in market conditions.
- 35 c) ability to note the need of price, policy, or product change.

100%

20% 5. Interest in salesforce
- 10% a) amount of information about product given.
- 5 b) contests for stimulating interest of salesmen.
- 50 c) methods of contact: visits in the field, sales letters, meetings or conventions.
- 10 d) hints on how to sell goods.
- 25 e) gathering of new selling points and new customers.

100%

Any sales manager who scores less than 85 per cent on this scale should be replaced.

QUESTIONS

1. Evaluate the use of a rating scale in determining the effectiveness of a sales manager.
2. Who should be responsible for rating the sales managers?
3. What are some of the major advantages and disadvantages of the rating scale given in Exhibit I?
4. What policy should Riesen adopt in evaluating its sales managers?

Yeltown Hardware Company — 70

SELECTING A NAME

Yeltown Hardware Company has two hardware stores. One store is located in the downtown section of Yeltown, and, the other store is in an adjoining suburb. Mr. Victor James, the owner, believes that it might be advisable to use his own name on the stores and is there-

fore considering dropping the name Yeltown. In discussing this matter with his employees, conflicting suggestions were offered.

Yeltown Hardware Company was founded in 1908 and the main store has been in the same downtown location since that date. The store has about 50,000 square feet, of which 10,000 square feet is used for an appliance department in the basement, and 20,000 square feet for a warehouse behind the main building. Mr. James bought the Yeltown Company two years ago and has continued to use the name of the city.

The Yeltown area was expanding rapidly, and to take advantage of the growing market Mr. James built the second store in an adjoining suburb, which was about six miles from the downtown store. The new building has 30,000 square feet and is next to a large supermarket, and a branch store of Sears Roebuck. Adequate free parking is available. Future plans call for another supermarket, a Woolworth Store, a Thrifty Drug Store, and other complementary establishments.

Yeltown Hardware's total gross sales for the last calendar year were 2½ million dollars. Sixty per cent of the volume was obtained in the downtown store and 40 per cent in the suburban outlet. An over-all markup of about 34 per cent was maintained.

Prior to the opening of the second store, Mr. James considered changing the name. However, he did not believe it was expedient at that time.

Mr. James is a leading citizen in Yeltown. He has served as president of the Chamber of Commerce, is active in Rotary, in Red Cross, and in the Community Chest.

Yeltown Company over the years has changed its merchandising policy and is no longer just a hardware store. Last year, its dollar sales were divided as shown in Exhibit I.

Exhibit I

Yeltown sales by product lines

Product lines	*Percentage of total dollar sales*
Builders hardware	10%
Appliances	40
Hardware	25
Paint	5
Houseware	20
	100%

The customers of the main store are older and have lived in the area for many years. On the other hand, the typical customer of the suburb store is relatively young, under 40, and new to the area. Many are buying new homes and do much of their own work.

With the supermarket and Sears store in the same shopping center, many people are attracted to the area and might on looking at the name Yeltown Hardware Company go into Sears to buy items that could be bought at the hardware store. Such products as television sets, washing machines, and refrigerators would be among those that the consumer might not realize were carried by the Yeltown Store.

The Yeltown Store has franchises for a number of the national appliance brands. During the past ten years a larger percentage of Yeltown's volume was in appliances. At present, about 40 per cent of the total sales was credited to appliances.

To reach prospective customers, Yeltown Hardware spends about 2½ per cent of net sales on advertising. Since Mr. James wishes to place greater emphasis on the major appliances, these products receive the bulk of the advertising.

Mr. James believes that a name other than Yeltown Hardware might better describe the product lines he carried. He decided that he had three courses of action: (1) keep the present name; (2) change it to a new name; or (3) keep the name Yeltown Hardware for the downtown store and use a new name for the suburban store. In evaluating the problem, Mr. James listed the points pro and con for changing the name. The reasons he listed for a new name were:

a. *Future expansion.* By having the name of a specific city, the store would be more limited in future expansion to other cities and generally tied to that area.
b. *More adequate description of the business.* Yeltown Hardware is no longer solely a hardware business. A different name might help people to know the product lines that the store carried.
c. *Family name.* As a leading citizen in this area, there would be some advantages for Mr. James if he used his own name. Because of his many contacts, his name should draw people to the stores.

The reasons he gave against a new name were:

a. *Cost.* The signs over the stores, stationery, phone listings, and the like would have to be changed.
b. *Goodwill.* A store with over 50 years of serving the people of Yeltown has established goodwill in the community. How much of this might be lost if a name change took place?

c. *Selection of name.* What name would be more satisfactory for the company? Is there any *one* name that adequately describes the operations?

QUESTIONS

1. How important is the name of a store to customers?
2. What other advantages and disadvantages are there for changing the name of the company?
3. How might Mr. James proceed in determining whether or not he should change the name?
4. Should Mr. James change the name of the company?
5. What name would you recommend if Mr. James decides to adopt a new name?

"Rane-Dare" Raincoat Company — 71

DEVELOPING A SALES PLAN

The "Rane-Dare" Raincoat Company was organized in 1942 to manufacture ladies' satin twill raincoats. All during World War II, the company was able to get desirable piece goods, and the sales continued to show an increase each year until 1949. The coats were sold to department stores, chains, and specialty shops at $9.89 and were retailed at $16. Although the Rane-Dare Company did not consider itself a style house, it did manufacture a garment that was considered one of the leaders in its price range. Rane-Dare employed three salesmen who covered the eastern market. No attempt had been made to develop the other sections of the country.

Sales in 1949 were about 6 per cent below those of 1948, and there were some very definite signs that the year 1950 would not be as successful as 1949 had been. The fabric situation had changed. Competitors were beginning to use new fabrics, buyers were not committing themselves for future orders, and many competitors started to cut prices in order to decrease inventories. As a result, the start of the year 1950 found the industry in an uncertain condition.

The problem the Rane-Dare Company faced was a very real one. Should it fall in line with competition and lower its prices by manu-

facturing a cheaper garment, or should the company strive to put out an even better garment at the same price? Upon the examination of the cost of the raw materials, it was found that both the price of piece goods and labor had increased about 5 per cent. The margin of profit (15 per cent) as allowed by the O.P.A. during the war had *not* been raised by Rane-Dare. Upon examination of the overhead, it was found that the company was operating with a minimum amount of help for the volume of business that it transacted.

The executives decided that Rane-Dare should maintain present price lines and offer a greater variety of styles. (During the years 1942-1949, the line consisted of only two numbers.) However, because this solution did not provide for the means to establish the company as a leading manufacturer in the popular-price raincoat field, it would solve only the immediate problem.

After a series of meetings, the executives developed the following plan:

1. Instead of relying upon one fabric source, a diversified line of fabrics would be purchased and offered to the trade.
2. A designer would be employed to create new styles.
3. Out-of-town representatives would be employed on a straight commission basis to sell the products of Rane-Dare on a national scale.
4. A definite sales program would be established for the city men. The city sales manager would call on large chains, such as J. C. Penney, Montgomery Ward, and Sears Roebuck and on large buying offices, such as Macy Associates, Allied Stores, and A.M.C. A second salesman would cover all city department stores. A third salesman would call on the smaller buying offices in the eastern market.
5. Development of export trade was considered very desirable, and necessary steps and inquiries were to be taken along this line. This program would entail direct mail to overseas sources for sales to retailers and jobbers. Foreign agents would be appointed to act as representatives in those countries where there was a demand for ladies' raincoats.
6. An advertising campaign was planned. This program was divided into two phases: Initial concentration would be placed on the trade and would be followed by cooperative consumer advertising; promotional aids such as mats, counter card blowups and "As seen in *Glamour*" tags were to be offered to the trade.
7. In addition to manufacturing ladies' raincoats, a children's line would be added and promoted on a "back-to-school" basis.

QUESTIONS

1. Should the plan outlined above be adopted?
2. What other plans or ideas might have been suggested?
3. Do you think Rane-Dare should add a children's line? Would the know-how developed from styling ladies' raincoats be helpful in creating a children's line?
4. Would it be more economical for Rane-Dare to continue to specialize in only two numbers instead of extending the line?

TWELVE

Personal selling

Cad Clothing Company — 72

ANALYZING A METHOD OF DIRECT SELLING

Cad Clothing Company manufactures a variety of women's specialty products, such as hosiery, underwear, blouses, and skirts. Sales are made through 1,000 door-to-door representatives working on a commission basis.

The representatives are women who work on a part-time basis. As a result a continuous problem that faces the company is the maintenance of an adequate sales force in the face of a high labor turnover, which averages between 65 and 75 per cent per year.

The company divides the geographical regions into districts and territories. The immediate operating division within a branch is the sales district, which comprises 50 territories. Each district is headed

by a district sales manager who provides the company with up-to-date market and product information. A district sales manager must have an efficient working knowledge of the territories to maintain a good personal relationship with the representatives. Each representative is responsible for one exclusive territory, which comprises 500 homes. All sales made in this territory are credited to her account regardless of whether the sale is made by another saleswoman or by mail.

The representatives work on a private contract basis, receiving a commission of 35 per cent of their gross sales. All remittances for the consigned merchandise are made after the representative's commission has been deducted.

The company provides a four-week training period for the new representatives. During this period the new employee is directed by an experienced representative; actual selling techniques are demonstrated by the door-to-door method advocated by the company. Throughout the training period, the company consigns special merchandise to the representative at less than cost. This additional inducement is offered to encourage early success and permanent employment.

In addition to the on-the-spot sales training, each new representative is given detailed instructions on how to advise the customers in selection of the products. The company believes that the representatives must have an adequate knowledge of proper sales techniques to insure initial and follow-up sales.

Cad also offers incentive plans to stimulate sales. The company sponsors annual contests so that the saleswomen will keep an active interest in their work. One of the most successful plans has been a system of awards for individual sales increases. In some years, the first prize has been a new car, a $2,000 government bond, or a world cruise. Although the goal has been high, there has always been at least one saleswoman who has attained it. Cad also offers smaller prizes in all of its contests. As a result, in some years as many as 50 per cent of the representatives have earned bonuses.

In order to decrease the high turnover, the company has tried to develop a close contact with operatives. Each branch office maintains extensive files concerning personnel and their service records, not only to insure that the representatives fulfill their credit obligations but also that the local office has the necessary data on the representatives' birthdays, anniversaries, and so forth.

On such occasions the management sends congratulatory cards to

the representatives. The district managers are required to write a letter to the representatives commending them whenever they have attained a sales goal.

Faced with a high labor turnover, the company continuously used classified advertising in newspapers to attract new applicants. The appeals used were of a broad nature rather than specifying particular qualifications. When the women answered the advertisement, an interview was arranged during which company standards and representative qualifications were pointed out. The advertisements were directed primarily toward the housewife and indicated how part-time work for the Cad Company could be interesting and profitable. The name of the company was never given in the advertisement.

A second method that the company used to locate representatives was through a recommendation program. In the event a saleswoman was considering retirement, the company asked her to find a new employee to take her territory. Any active representative could also recommend potential saleswomen. If the person were hired and stayed with the company for a period of six months, a $25 bonus was given to the person who recommended her.

QUESTIONS

1. How might the company decrease its high employee turnover?
2. Point out the advantages and disadvantages of the Cad Company's using exclusive territories.
3. What other methods could the company use in attracting new representatives?
4. Do you believe it might be advisable for Cad to change its methods of distribution?
5. Would Cad have to do extensive national advertising if it continues its present method of distribution? Explain.
6. Would it be advisable for Cad to use men in selling?

The A. W. Murphy Company — 73

COMPENSATING AUTOMOBILE SALESMEN

A. W. Murphy Company was the exclusive distributor of the Weiland Motor Car Company's products in Manhattan and in six adjoining

counties in lower New York State. The Murphy organization controlled the retail distribution on the island of Manhattan and assigned 33 contract dealers to handle sales in the adjoining counties. The Murphy organization took 40 per cent of their assigned quota for retail sales in Manhattan and assigned the remainder to the contract dealers.

The New York retail showroom, with a sales manager and a sales force of six men, was controlled by Mr. Murphy. Four years ago, the Weiland Company produced a utility vehicle that could be used as a combination passenger car, light truck, mobile power unit, and tractor. In the first year A. W. Murphy's sales volume was $500,000. Approximately 85 per cent of the profit came from the company's own retail sales, and the remainder from sales to contract dealers.

Two years later the demand for Weiland cars decreased. The Weiland Company realized it was bad policy to sell the utility vehicle as a passenger car. They advised all distributors to stress other features of the utility car, such as the four-wheel drive, its use as a combination tractor and light truck, and its accessory equipment, including snow plow, winch, generator, welder, hydraulic lift, rotary broom, and post hole digger.

Murphy's salesmen were paid a salary plus a $20 commission on every car they sold. Last year, with growing sales resistance and the resulting importance of the salesman, this commission was increased from $20 per car to 2 per cent of the total sale. However, the salesmen were dissatisfied because they had to sell not only a utility car but also a variety of accessory equipment. Because they did not have a wide knowledge of farm and mechanical equipment, an equipment manager was hired to help the salesmen with these problems.

The dealers, who had limited facilities, often sent their customers to the distributor's showroom for demonstration of equipment, and, if the salesman sold the dealer's customer, he was paid a five per cent commission on the sale by the dealer. As a result of the differential in commissions, the salesmen tended to neglect their own customers in favor of the dealer's.

The sales manager felt that salaries should be discontinued and that a straight five per cent commission should be paid to the salesmen in the New York showroom. The manager pointed out that, under this system, there would be an equal incentive for the salesman to sell his own customers. "It has always been the policy in the past to pay

salesmen straight commissions in the automobile business," he stated, "and under this plan several new salesmen could be taken on without any additional expense."

Mr. Murphy opposed the plan. He pointed out that the salesman who sold the most automobiles was not always the "best" salesman. Such a salesman often stressed features that did not actually exist in the automobile in order to make a sale. As a result, the customer was dissatisfied and in the long run the Murphy Company would lose. A salesman working on a commission basis is pressed by the necessity of making new sales and may neglect the old customers who are the backbone of an automobile company.

Mr. Murphy then consulted the factory representative to get his ideas concerning a satisfactory compensation plan. The factory sales manager believed that a straight salary and no commission should be paid to the salesmen selling the Weiland line. The factory manager pointed out that, because the Weiland line was an innovation in the automobile field, it required the best salesmen available. He believed a definite sales policy was required to increase the sales of this vehicle.

The Weiland Company was preparing to manufacture an all-purpose, plastic-body sports car. The factory manager believed that salesmen would neglect the utility vehicle and follow the line of least resistance by pushing the sales of the sports car.

The Weiland Company hoped to increase the sales of the utility vehicle in the future and wanted to assign the Murphy Company a larger quota in the coming year.

QUESTIONS

1. What plan of compensation should be adopted by the A. W. Murphy Company—straight salary, salary plus commission, or straight commission?
2. Do you agree with Mr. Murphy that a commission basis of payment would result in a high-pressure type of selling?
3. Why did the Weiland factory manager recommend a straight salary and no commission?
4. How might the plan of paying a five per cent commission on sales made to dealer's customers be changed and the salesmen's cooperation still be maintained?

R. Cecilia Bakery — 74

TRAINING ROUTE SALESMEN

R. Cecilia Bakery bakes and distributes white, wheat, and rye breads and a variety of specialty breads, rolls, and coffee cakes. The company serves approximately 4,000 outlets, with a high concentration on retail grocery stores, restaurants, hotels, transportation companies, hospitals, and other institutions. Deliveries made to the majority of outlets are on a cash basis. Weekly and monthly credit is given to some customers, principally chain stores and institutions.

The company operates more than 100 wholesale delivery routes in addition to three special transport runs. The transport runs are made from the plant to distributing depots, where the merchandise is transferred to regular route trucks and delivered to the retail outlets and other customers by route salesmen.

The continued growth of the company and the normal turnover of employees have necessitated the hiring of about 25 new route salesmen each year for the past four years. These new salesmen have always been trained on the routes by their sales supervisors.

There are ten sales supervisors who are in charge of districts varying from seven to twelve routes. R. Cecilia Bakery does not have a formal training program for new salesmen, but allows each supervisor to train new salesmen as he sees fit. However, the supervisors are expected to show the new men how to get more space for display, how to solicit new accounts, and how to operate a general route.

When a new salesman is hired, he is instructed to be on the loading dock 30 minutes before departure time in order that he may be introduced to the other route salesmen. The supervisor then acquaints the new salesman with the operation of his truck and the types of products that he will handle.

On this first day, the supervisor does most of the work and at the same time instructs the new man in the codes (indicating date of delivery, hence, freshness), space arrangements, prices, and the methods of selling bread.

Occasionally, the new salesman is permitted to handle an order for a smaller store. Gradually, he assumes more and more of the work, so that by the third day, he is expected to be able to perform all of the functions.

As soon as the new salesman shows that he has the ability to handle

the route, the supervisor puts him in charge of the route. Generally, the supervisor will follow the truck in his own car and will assist the salesman whenever he gets behind his time schedule. He will give this type of assistance for several days before the salesman is allowed to handle the route independently. Periodic checks and check rides are usually made during the next two weeks to make certain the new salesman is doing all of his work, and doing it properly.

In order to determine if the training program was effective, the sales manager decided to question 25 of the new salesmen and five of the supervisors. He asked the salesmen the following questions:

1. When you were first hired, did your supervisor take you through the bakery and explain the manufacturing processes?
2. Did your supervisor explain the R. Cecilia story? Did he tell you about the beginning and the growth of the bakery and the part you would play in its future?
3. Were you told the importance of truck operation and truck procedure on the bakery loading dock?
4. Were the functions and the importance of the route book explained to you?
5. Did your supervisor introduce you to all your grocers and tell them that you were going to be their new salesman?
6. Was the importance of space on the bread rack explained to you?
7. Were you allowed to do the display work and bread handling as soon as you were shown how?
8. Did your supervisor explain our freshness program and the importance of keeping the bread "on code"? Did he question you to find out if you had learned the code?
9. When you had completed the route and were checked in, did your supervisor review the day's work and explain mistakes you have made in route procedure and how to correct them?
10. After you were allowed to handle the route by yourself, did your supervisor check frequently to see how you were making out?
11. Do you believe that your supervisor did a good job of teaching you bread sales work?
12. In view of the experience you have had in operating your own route, do you have any suggestions that would aid in the training of new salesmen?

He did not get any detailed answers from the salesmen. Nearly all questions were answered by "yes" or "no." Answers to the first and second questions indicated that the salesmen believed these subjects had been neglected by the supervisors. Questions 3 to 11 were answered "yes," indicating that the salesmen believed their super-

visors had done a thorough route training job with them. In answer to question 12, the salesmen suggested that they would like to know more about the products they were selling and more about history of the bakery to have a broader acquaintance with the plant personnel, with whom they would work, and a better program of "follow-up" by their supervisors.

Five of the supervisors were asked the following 11 questions:

1. In introducing your new salesman to other salesmen, did you make sure he came to know the men in your own division, so that he would feel he was a member of the team?
2. Did you show him the bakery in operation, so that he would be familiar with the production of our products?
3. Did you explain to him the personnel policies of the company and let him know what was expected of him?
4. Did you tell him the history of the company and did you stress the part he should play in its future?
5. Did you stress the importance of proper loading dock procedure and truck operation?
6. Did you show him how to do his work and then let him learn through doing?
7. Did you teach him "rack selling" immediately, so that it would become a habit?
8. As he was learning, did you let him know how he was doing?
9. Did you review work at end of each day in private, explaining any mistakes he may have made so that he could correct them?
10. After he was able to handle the route by himself, did you follow up, and again let him know how he was doing to build his confidence?
11. Do you believe that you could do a better job of teaching a new salesman, if you had a written training manual to follow?

Answers to question two indicated that all supervisors had neglected to introduce their new men to production. All other questions were answered "yes," indicating that they believed they had been very thorough in their training program. It is interesting to notice that question four was answered "yes" on all supervisor questionnaires whereas the equivalent question (2) was answered "no" by the salesmen. In answer to question 11 all the supervisors stated that they believed a manual would be very helpful to them.

Route salesmen of other companies were also questioned as to their training program and it was found that only one company had a definite training program. All others were trained as informally as new salesmen were by the R. Cecilia Baking Company. As a result of his

investigation, the sales manager presented the following summary and recommendation to the president of R. Cecilia Bakery.

Summary and recommendation

The training of new salesmen is generally well covered. There are a few phases that might be improved, particularly in explaining our manufacturing procedures and in putting more emphasis on the care of equipment.

Both salesmen and supervisors believe that a written training manual would be helpful. This training manual should include all the steps that should be followed in the training program. An outline of the suggested material for a training manual in the order in which information should be presented is listed below:

1. Production procedure of the bakery.
2. Orientation covering the history of the bakery.
3. Proper introduction to fellow salesmen and personnel.
4. Complete truck operation and dock procedure.
5. Thorough introduction of salesmen to his customers and their principal employees.
6. Functions of the route book and the controls it exercises.
7. Position and amount of display space in stores, with emphasis on the importance of display space.
8. Importance of our advertising program.
9. Proper procedure in settling accounts at the end of day in the settlement room at the bakery.
10. Necessity of following up the training program until proper routine is established by new salesmen.

QUESTIONS

1. In your opinion was the kind of sales training which the R. Cecilia Company gave its salesmen satisfactory?
2. Appraise the recommendations of the sales manager for sales training of new salesmen?
3. What kind of sales training do you believe should be given to new salesmen of R. Cecilia?
4. What qualifications should R. Cecilia consider in selecting route salesmen?

Forum Lumber Company — 75

INCREASING THE NUMBER OF SALESMEN

Mr. Whitmore, the owner of the Forum Lumber Company, is considering adding two salesmen. Although his company has experienced

satisfactory growth, he believes that he could obtain a greater sales volume if he had more salesmen in the field.

Eighty per cent of the company's sales are made at wholesale prices to building contractors, small boat manufacturers, ship builders, furniture manufacturers, trailer-truck builders, schools, and other users of hardwood. About 90 per cent of the hardwood is imported from the Orient and from South America, and the remaining 10 per cent is grown in the United States.

Because of the variety of uses, the sale of hardwood lumber is relatively stable throughout the year. There is, however, a small increase in sales during the spring and summer months. The company does no milling but sends orders for such work to a nearby lumber mill.

At present, the employees include, besides Mr. Whitmore, an office girl, 2 yard men, and Mr. Breen, a salesman. All of these employees, with the exception of the office girl, have been with the Forum Lumber Company for more than 7 years.

The company's office and yard are located in a large western city. Mr. Breen and Mr. Whitmore, who puts in as much time in the market as his managerial duties will permit, cover the territory within approximately a 200-mile radius of the home office. Contacts outside this area are made by mail. However, the company gets only 5 per cent of its sales from the outlying localities. Mr. Breen uses his own automobile and is given a monthly allowance. Mr. Breen's average monthly salary and expenses are as shown in Schedule I.

Schedule I

Salary	$450.00
Auto expenses	120.00
Travel expenses	75.00
Taxes and insurance	20.00
Total	$665.00

Although Mr. Breen is paid a straight salary, for the past 5 years he has been given a bonus based upon his sales record. Mr. Whitmore estimates that Mr. Breen calls on 18 customers a day. Since many of these calls are merely courtesy calls, no record of the contacts has been kept. Also, in a number of instances, after Mr. Breen or Mr. Whitmore had called on a customer, the customer would place an order by telephone the following day. For reasons of this kind, Mr. Whitmore was of the opinion that in such a small organization it was

not practical to keep a close check on customer calls. Mr. Whitmore, however, did keep records of Mr. Breen's sales and expenses in order to determine his productivity.

A typical analysis of this information for a four-month period is given in Schedule II.

Schedule II

	July	*August*	*September*	*October*
Sales	$5,417.14	$8,259.67	$6,956.97	$7,381.37
Cost of goods sold	3,861.10	5,463.61	4,338.29	4,672.33
Gross profit	1,556.04	2,796.06	2,518.68	2,709.04
Mr. Breen's expenses	665.00	665.00	665.00	665.00
Net profit	$ 891.04	$2,131.06	$1,953.68	$2,044.04

Forum's markups on hardwood lumber ranged from 25 per cent to 40 per cent depending on the type of wood. Schedule III indicates the increase in volume needed to maintain profit when discounts were offered.

Schedule III

Cost and selling price per 100 board feet

Discount	*Quantity (Board feet)*	*Cost price*	*Selling price*	*Markup on cost*	*Gross profit*	*Increase in volume required*
			25 per cent markup			
Market	10,000	$60.00	$75.00	25 %	$150.00	Market
5%	10,000	60.00	71.25	18.7	112.00	33.3%
10	10,000	60.00	67.50	12.5	75.00	100
15	10,000	60.00	63.75	6.2	37.50	300
			33 1/3 per cent markup			
Market	10,000	$60.00	$80.00	33.3%	$200.00	Market
5%	10,000	60.00	75.96	26.6	159.60	25 %
10	10,000	60.00	72.00	20.0	120.00	66.6
15	10,000	60.00	68.00	13.3	80.00	150
			40 per cent markup			
Market	10,000	$60.00	$84.00	40%	$240.00	Market
5%	10,000	60.00	79.80	33	198.00	21 %
10	10,000	60.00	75.60	26	156.00	53.9
15	10,000	60.00	71.40	19	114.00	110.5

Mr. Whitmore always set prices within the limits suggested by this because he believed that, in order to get new accounts and hold customers, the company had to offer price discounts. He based this conclusion upon the facts that the company did very little advertising and was a relatively small firm in this highly competitive industry.

The financial condition of Forum is satisfactory; an increase in the volume of sales could be handled with the present office and yard personnel.

Mr. Whitmore hoped that the additional salesmen would be able to relieve him of his sales activities so that he could then devote his full time to the management of the company. If new salesmen were hired, Mr. Whitmore was uncertain whether to pay them on a straight commission, a salary plus commission, or a straight salary. He realized that, if he hired new salesmen and paid them under a plan different from the one he used for Mr. Breen, dissatisfaction might develop.

When Mr. Whitmore consulted with Mr. Breen about hiring two new salesmen, Mr. Breen stated, "The Forum Lumber Company's business has been obtained on a highly personal basis, and our sales figures indicate that you sell to your own accounts about 45 per cent of our total volume. I have found it extremely difficult to develop new accounts because of the competitive conditions. I believe it might be better to relieve you of some of the details at the office so that you could devote full time to selling. I doubt if a new salesman could hold the accounts that you have been able to get for us over the many years you have been calling on them. I believe we could get better results by advertising to prospective customers."

QUESTIONS

1. Appraise the emphasis that has been placed on discounts in selling the customers of the Forum Lumber Company.
2. Do you believe that new salesmen would be able to do an effective job in holding the accounts of Mr. Whitmore?
3. Should Forum hire the new salesmen or should it place emphasis on advertising?
4. What payment plan would you recommend if the company decided to hire the new salesmen?

The Eastville Service Corporation — 76

DECIDING ON CONCENTRATION OF SALES EFFORT

The Eastville Service Corporation was faced with the problem of which make of oil burner to sell. The company had been selling the Extrol Burner exclusively for 15 years, but two years ago it accepted exclusive distributor rights for the Liquid Heat Burner as well.

Because of the adjustment it is possible to achieve with the Liquid Heat Burner, it is considered superior to the Extrol Burner. The very accurate air adjustment valve permits an extremely fine air-oil mixture. The burner, because of this accurate control, also breaks the oil into more minute particles. Therefore, it produces a better, cleaner flame, and a steadier, more dependable heat. Because more of the oil is consumed, the burner stays cleaner.

The consumer benefits because of better performance, less servicing cost, and a decrease in the consumption of fuel oil. The high price of fuel oil makes the latter an important sales point.

The company benefits because service calls due to faulty performance are greatly reduced. The company also benefits from the increased satisfaction that the consumer gets from the burner. This point is particularly important because a large part of the company's business comes through the satisfaction of the old customers.

All these advantages notwithstanding, the Eastville Corporation found difficulty in selling the new burner. Consumers were wary of the little known burner, especially so when it was more expensive than the Extrol, with which they were familiar. The company was not able to carry on an extensive advertising program. The executives had to decide whether to drop the Liquid Heat Burner and concentrate on the Extrol Burner or attempt to spread their sales efforts on both burners.

History of the company

The Eastville Service Corporation has been operating in Westchester County for the past 30 years. It sells fuel oil and oil burners to both private and industrial users. The bulk of its sales is made to private users.

Until about 1935, the company sold a complete line of builders' supplies, maintained several lumber yards throughout the county, and

had an extensive coal business and a large wholesale ice business. Bad business conditions in 1936, coupled with excessive competition, forced the company to concentrate on its most profitable lines (fuel oil, oil burners, and ice) and to abandon the other lines (building supplies, lumber, and coal).

In that year the company also became affiliated with one of the large petroleum companies and sold its petroleum products exclusively.

Organization of the company

The oil burner and burner service departments are independent of the company's affiliation, both as to type of products sold and the servicing of these products. The selling methods are entirely under the direction and operation of the Eastville Corporation.

The company has a sales force of three, who are engaged in selling both the oil and the oil burners. Besides these salesmen, the company maintains a complete burner service department, staffed with factory-trained service men who install and service the burners.

During World War II years fuel oil and oil burners were in short supply; in fact, for a long period of time, there were no new oil burners to be had, and the supply of fuel oil was barely enough to meet the needs of the company's old customers. During this time, the chief function of the sales department was to have people renew their fuel oil contracts and sign up for a yearly cleaning of the oil burner unit. The salesmen also promoted the use of the "degree-day" system of fuel oil delivery, whereby the company, by keeping a record of the temperature, knows almost exactly how much oil the consumers use and when to make delivery. These accommodations were important because they helped the company to provide better service and to improve consumer relations.

Advertising policies

The Eastville Service Corporation did not pursue an aggressive advertising policy. At one time, somewhat earlier in its history, it had done quite a bit of newspaper advertising, but with the depression years it abandoned the advertising and did not resume. The company did, however, do some direct mail advertising, but it was mainly to supplement the work of the salesmen in their routine jobs. These direct mail pieces went to both old and prospective customers.

Operation of sales department

The sales department's operations depended on lists of prospective customers. These names were obtained from three sources. The first source was a service that the company bought from an independent organization. This organization provided the names and addresses of people who had either bought or rented homes anywhere in the area served by the Eastville Corporation. In addition, it provided information about the type of dwelling and the selling price. This was a valuable source, because the information was complete and prompt. In as many cases as possible the salesman would call on the prospect and attempt to sell him an oil burner, or if one was already in use, to sell the new tenant fuel oil.

The second, and perhaps the most valuable, source of new business came from old customers who moved within the area. In this case the company could usually sell the customer an oil burner if one was not already in operation and, in addition, usually obtain the fuel oil business of the purchaser.

The third source of business was the recommendation of prospects to the company by the company's old customers.

QUESTIONS

1. Should Eastville Corporation continue to carry the Liquid Heat Burner or concentrate on the Extrol Burner, which has achieved consumer acceptance?
2. If Eastville decides to carry the Liquid Heat Burner how, within the limitations expressed, would the company be able to establish consumer acceptance?
3. With the increasing use of gas heat throughout the country, what do you believe is the future potential of the oil heating industry?

The El Camino Company — 77

PLANNING AN ADVERTISING AND SALES PROGRAM

The El Camino Company sells remembrance advertising (consisting of calendars, direct mail, engravings, novelties, advertising playing

cards, and leather gifts) through 20 sales offices located in every section of the country, plus more than a dozen foreign offices.

All products sold by the El Camino Company are manufactured or processed in the company's factory in Knoxville, Tennessee. Some items sold by this firm are partially fabricated by other manufacturers, but finished and packaged by El Camino.

Over 500 salesmen are employed, working on a straight commission basis. As many as 60 salesmen cover each of the branch office territories. In some branches, the territory consists of a part of a city. For example, the New York Office includes the island of Manhattan and the Bronx; the Brooklyn territory encompasses Brooklyn and Long Island. There is no territory designation within the territory for each salesman working within the city bounds of a particular branch. Instead, each salesman covers the same ground. The reason for the lack of intraterritorial assignments is that all people in business are potential customers for the El Camino line. Therefore, any one salesman could not solicit the maximum market in the business area of a large city. Moreover, if an intraterritorial plan were used, new salesmen, constantly being hired by the firm, would probably be relegated to nonproductive sections of the city.

Because of the lack of territorial assignments within cities, the salesmen may often waste a good deal of time within a prospect's office before he finds out that the prospect has already bought from the firm within the past 18 months.*

There is a large turnover of salesmen. Only about three out of every five hired remain with the company for more than a month, and one out of two for more than a year. However, since little training is given the salesman, and he is paid only after he sells (with no drawing account), the cost of the change to the company is slight in comparison to the increased business that each additional salesman who remains with the firm produces.

El Camino's gross business last year was $20,000,000. The goal for this year was set at $25,000,000.

El Camino sells directly to its consumers. These include manufacturers, jobbers, wholesalers, retailers, distributors, brokers, manufacturers' agents, and sales agents.

The major sources of advertising and sales promotion engaged in by the firm are:

* Once an account has been sold by the salesman, it becomes his customer for a period of eighteen months from the time of the last sale.

1. The products themselves on the desks and walls and in the pockets of customers.
2. The scores of salesmen that call on every prospect during the course of the year. (As many as five salesmen may call on a prospect or customer during the course of the year.)
3. El Camino customers' recommendation of the company's service to friends and to their own customers.
4. An effective public relations campaign, which keeps El Camino in the spotlight in national magazines, newspapers, and occasionally in the movies.
5. An occasional advertisement in *Business Week,* displaying an automatic pencil, one of El Camino's more than 300 products.
6. A house calendar, sent out each year to all customers and to some good prospects.
7. Direct mail pieces sent out at various times during the year.

As a result of these various forms of advertising and sales promotion, and the thorough coverage achieved by its salesmen, El Camino has become one of the leaders in the remembrance advertising business.

In order to take the company's products out of straight price competition and to provide an organized and scientific sales force, El Camino developed a basic sales plan. The sales plan lays stress on the advertising idea and only incidentally on the product that will put the idea into action.

The effective use of this plan now has enabled El Camino salesmen to do a more profitable selling job than they had been able to do before the plan was offered.

Suggestions have been received in the home office from various El Camino salesmen throughout the country, requesting that the firm engage in some major form of national advertising in order to make the selling job easier, to increase the firm's share of the potential market, and to raise the prestige of El Camino salesmen who have suffered somewhat from the duplication of calls on customers and prospects.

In general, these suggestions included the following:

1. Continuance of the advertising already used, with the exception of the national advertising campaign to sell the El Camino pencil.
2. The use of appropriate space in several business and trade publications, such as *Business Week, Tide,* and *Advertising and Selling,* consisting of:

(a) A brief description of the sales plan and how it can help the businessman, large or small.
(b) A testimonial each week (or month) from some prominent business leader who has used El Camino's ideas.

Some executives in the company felt that, since El Camino has a fixed advertising budget, these advertising costs would have to come from another source. Probably the only source available would be salesmen's commissions. Without doubt, this form of appropriation would prove very unpopular among the salesmen and might lead to a good deal of friction with management. Moreover, the increased sales might not offset the reduced commissions.

The money allotted by the sales promotion department for sales manuals, aids, and brochures, now provided as sales aids, is another possible source of revenue. At present, these materials are sent to the sales force to facilitate a more effective and productive selling job.

QUESTIONS

1. Should El Camino increase its national advertising?
2. If national advertising is increased, should it be done at the expense of salesmen's commissions and sales promotional materials?
3. What do you think of the plan El Camino uses in hiring and compensating its salesmen?
4. Evaluate El Camino's basic sales plan, which places the emphasis on the advertising idea and only incidentally on the product that puts the idea into action.
5. Should El Camino attempt to decrease the turnover of salesmen? Give some of the advantages and disadvantages of the high turnover of salesmen for this company.
6. Should the company adopt an intraterritorial assignment plan for its salesmen?

THIRTEEN

Integration of methods of sales promotion

Determination of the Marketing Mix — 78

CHOOSING MARKETING STRATEGY

For each of the following companies indicate what channels of distribution should be used.

What kind of marketing mix should each company use? Should emphasis be placed on consumer advertising, trade advertising, direct mail, personal selling, or on what? Consider the influence consumer buying habits will have on the recommendations for selection of channels of distribution.

Multiple Machine Company

The Multiple Machine Company is one of the major business machine manufacturers in the United States. Its product line includes machines, typewriters, cash registers, bookkeeping machines, and statement machines..

The company produces adding machines in 15 models; of these, three are portable and 12 are standard. The portable models provide a six column capacity. Standard models provide a choice of 8, 9, 10, 11, or 13 column capacity. Seven are electrically operated and five are hand operated.

In its typewriter division, the company produces seven models of standard typewriters with carriage widths of 11 to 26 inches. Two of the models are electric.

The line of standard cash registers includes 12 models, of which 5 are electrical and 7 are hand-operated. Capacities of the models range from 6 columns to 13 columns.

The company produces bookkeeping machines in both 10 column and 13 column models. The bookkeeping machines are electrically operated.

Executives of the company believe that all of its products are moderately priced.

Virden Chemical Company

Virden Chemical Company is a producer of basic heavy chemicals, including sulphuric acid, caustic soda, chlorine, carbon disulphide, and carbon tetrachloride; and of agricultural and other chemicals. Substantial amounts of these chemicals are used by the company in its own plants as raw materials for the production of other products. Virden's products are used in many industries, including such classifications as: chemical, rubber, petroleum, auto parts, rayon, paint, soap, iron and steel, paper, textile, drug, food, mining, and agriculture. Virden is in active competition with other companies producing similar products, but does not compete in consumer markets.

Hearing Aid Company

Hearing Aid Company manufactures and sells hearing aid instruments designed to overcome or compensate for hearing deficiencies. Its major product is a comparatively small instrument consisting of a micro-

phone that picks up sound waves, an amplifier that strengthens the electrical impulses produced by the sound waves, utilizing batteries as a power supply, and a bone conduction oscillator. The company has tried to develop hearing aids that minimize the size of all parts so that the user may wear them inconspicuously.

Law Paper Company

Law Paper Company is engaged in the manufacture of paper napkins, paper towels, facial tissues, household wax paper, and industrial cleaning tissue. Law Paper Company sells its products throughout the United States and to a comparatively limited extent in several European countries. The industry in which the company operates is highly competitive. Law is one of the leading producers.

Webster Company

The Webster Company, a small firm located in Ohio, was started 2 years ago for the purpose of manufacturing portable room air conditioners. The line of air conditioners includes window-sill types of units of one-third, one-half, three-fourths, and one ton capacities, and free-standing console type models with the same capacities. These units are self-contained units that do not require water or coolants other than the refrigerants incorporated in the unit itself.

Euphrates Perfume Company

Euphrates Perfume Company was started on a small scale by two brothers who were attracted to the perfume business by the high profit margin it offered. It was their belief that there was a potential for another domestic perfume in the United States. The brothers, therefore, engaged a perfume chemist, and started the operation with limited capital.

Omei Record Company

Omei Record Company is engaged primarily in the recording, manufacture and distribution of phonograph records. Omei is one of the five largest phonograph record manufacturers in this country. Its products are sold throughout the United States.

The company produces phonograph records in all the accepted commercial speeds, thus meeting the needs of consumers with different types of record-playing equipment. It manufactures both the long-play and extended-play records. It also has contracts with leading artists and is constantly searching for new artists.

Fairmont Brush Corporation — 79

PROMOTING DIFFERENT PRICE LINES

Fairmont Brush Corporation manufactures brushes for men and women and is the leader among three manufacturers supplying brushes to the consumer trade through drug stores.

However, within the past six years, Fairmont lost business to its competitors. The Fairmont Brush Corporation has two brushes—one selling for $3.00 and the other for $5.00. The more expensive brush was introduced to the market one year ago, right at the time when wholesalers and retailers were more interested in reducing inventories than in buying new merchandise. Despite this situation, the sales organization was able to secure distributors.

With increasing income, consumers continued to spend lavishly for drug and cosmetic items. Even though prices of most drug products remained relatively stable during this period, demand for larger sizes and more expensive items continued to increase dollar retail sales. A contributing factor was the shift away from brushes selling under $3.00 to brushes in the $5.00 class—a development in which Fairmont was unable to participate because there was no Fairmont brush until last year.

Since sales through drug stores represented from 50 per cent to 60 per cent of total Fairmont volume, with the balance going through variety, department, and other miscellaneous retail outlets, it was possible that the drug store sales were not truly representative of the over-all Fairmont picture. Results of several consumer use studies, however, seemed to confirm the drug store sales in a general way—that Fairmont had about held its own, whereas the other brands had increased their volume. For example, the Fawcett "Beauty Readers Forum" showed Fairmont holding its own until two years ago with

19 per cent of their readers using Fairmont in both years. The *Milwaukee Journal* showed a slight decrease in the six-year period.

There was some evidence that consumers were buying the $5.00 brush at a more rapid rate than stores were repurchasing, with the result that 6 per cent of the stores were already out of stock.

The recent picture of the $3.00 brush in drug stores presented these factors:

1. Consumer sales of brushes under $3.00 now represent only 25 per cent of all units as against, roughly, 60 per cent six years ago.
2. Fairmont's hold on the market reached a peak in 1950, when Fairmont did 50.2 per cent of all lower price business. This has since declined to a current figure of 44.7 per cent.
3. Independent retail stores inventory of Fairmont's $3.00 brushes has shrunk by 33 per cent in the past year. This shrinkage is twice as large as the 14 per cent inventory cutback for the whole market. The effect has been to lessen seriously the number of Fairmont brushes on display.
4. Actual unit sales of Fairmont brushes on the whole have not been too adversely affected by the promotion of the $5.00 item. Fairmont's $3.00 brushes account for better than 40 per cent of all unit sales in the $3.00 price class, which is over twice as large as its nearest competitor (19 per cent). There are, also, some indications of greater consumer interest in low-priced brushes. Latest Nielsen figures show that Fairmont's $3.00 brush is under pressure—inventories are low—distribution is sagging.

Some variety syndicates urged price reductions of $3.00 items and claimed that they could greatly increase unit sales if the prices were cut to $2.75.

QUESTIONS

1. Should all consumer promotion be concentrated behind the $5.00 brush, or should a part of it be devoted to holding the franchise on Fairmont's $3.00 brushes?
2. If Fairmont's $3.00 brushes are unsupported with a consumer effort, can they be successfully promoted with point-of-sale advertising?
3. How should the problem of declining stores inventories on Fairmont's $3.00 brushes be handled?
4. Is this the time to reduce the price of Fairmont's $3.00 brushes to $2.75 as suggested by certain variety syndicates?

Flex Manufacturing Company — 80

DIFFICULTY OF SALES PLANNING

Flex's business consists of the manufacture and sale of electronic tubes and equipment for use by industrial firms, individual consumers, and the armed services.

Among its products are radar, underwater sound apparatus, industrial electronic devices, and television tubes. Because of the rapid growth in the electronics industry, Flex expanded proportionately with its competitors in the industry. Sales for last year amounted to $18,500,000.

Flex's sales organization developed in an informal manner; sales offices were located in eight principal cities. Seventy-five per cent of total volume was sold through its own sales offices; the other 25 per cent was distributed through sales representatives.

The sales department was headed by an engineer who had been in charge of product development for a large electrical company for ten years before he joined Flex. During the five years in which he had been head of the sales division, the company's volume had increased each period.

With the expansion of the firm, the sales manager had followed the policy of adding salesmen and opening sales offices whenever he believed the potential of the market warranted more sales effort.

When the salesmen were hired, the managers of the district sales offices were given complete autonomy in training them. However, it was recommended that close supervision of the men be maintained for the first six months of their employment.

All salesmen were paid a straight salary for their first 2 years with the company. Following this period, the salesmen were paid a salary plus a bonus based on a quota they set for themselves after consultation with and the approval of the district managers.

The salesmen were also given the privilege of deciding on what specific products they would concentrate their sales efforts, as well as the customers on whom they would call. In the event there arose any dispute among the salesmen on these points, the sales manager followed the practice of giving the man with the greatest seniority the preference.

The district managers exercised little control of the salesmen once

they had completed their probationary period of six months. The philosophy of the sales manager was that, in this type of selling there were too many variables to permit any extended control. He believed that a minimum of restrictions gave the salesmen the freedom they needed to develop new business for the Flex Manufacturing Company.

Furthermore, the sales manager believed that, because he appraised the men very carefully before he hired them, he had competent salesmen. He based his original appraisal on criteria such as technical and sales aptitudes, personal attitude of both the applicant and his wife, college record, general health, and intellectual capacity.

The Flex Manufacturing Company did not have a marketing research department. All sales forecasts were made informally by the assistant to the sales manager. He correlated the developments in the electrical industry with the general growth of the economy and estimated the over-all sales he expected for Flex for the coming year. He did not attempt to set quotas for the districts. This task was left to the district managers, who established their quotas on the basis of the goals at which they arrived with their salesmen.

The sales manager believed that this method was satisfactory because he was confident that his salesmen were conscientious and worked at full capacity. He stated, "To give the authority to the district managers to set their quotas in cooperation with their salesmen is a sound principle. They have the responsibility of making the quota and when they are given the authority to set it, you can be sure that they will make every effort to attain it. If we attempted at headquarters to tell them how much they should sell, it would be more difficult to convince them that the quota was fair. Our sales personnel are pleased with our current sales policy and I believe that, since it is working satisfactorily, we should not change it."

QUESTIONS

1. Is Flex's sales manager using a sound philosophy of marketing management? Explain your answer.
2. Who should have the authority and responsibility of sales planning in the company? Why?
3. Point out the advantages and disadvantages of the procedure of giving salesmen the authority to set their own quotas.
4. What changes should the company make in its marketing program?

Gayley Company — 81

PROMOTING A SUBDIVISION

Three years ago, executives of the Gayley Company, a small canner of vegetables and fruit products, decided to subdivide a ranch of about 100 acres that it owned on the outskirts of a medium-sized southwestern city. The company is now faced with the problem of devising a sales approach to be used in the sales of home sites in the suburban real estate development that it called Gayley Estates.

The development of Gayley Estates was carefully planned to provide an area where homebuilders could plan and build their homes with the assurance that the quality of the subdivision would be maintained and that the property would not become subject to rapid depreciation as a result of the nearby construction of low-cost homes.

Extensive restrictions were included in the sales contracts to provide for such matters as standard setbacks, suitable grade levels, underground storage of propane gas tanks, water-conserving regenerative coolers for air-conditioning systems, thorough compliance with sanitation requirements, and high quality construction. All plans for homes to be constructed in the development had to be approved by the Gayley Company before construction could be started, so that all homes built in Gayley Estates would conform in construction style to the standards of other houses constructed in the subdivision.

It was the intention of the Gayley Company to open the subdivision in phases as demand for lots developed. Originally, approximately 100 acres were plotted and these provided 120 building sites after space had been provided for streets. The development of Gayley Estates was not designed to be a rapid program. Personal pride and interest in the area on the part of executives of the Gayley Company demanded that every source of neighborhood deterioration be avoided. Thus, a number of possible homesite buyers were refused because the type of homes that they desired to build did not meet the minimum requirements. Most homes in the area were to be in the $25,000 to $50,000 price range.

The prices of the building sites were established by comparison of the features of Gayley Estates with those of other competitive subdivisions. Prices varied with location within the area. Although lots might have been sold more rapidly at reduced prices it was not Gayley

Company's intention to sell the land too rapidly to allow standards to be controlled. It had been Gayley's experience that demand for building lots was not elastic, and that, in many instances, the price of lots influenced their level of respect by the community and the kind of house that persons considered building on them.

The first 10 homes in Gayley Estates were built by the Gayley Company. Six more homes were built and sold by various contractors. Several lots were sold without immediate plans by the purchasers for home construction. However, no more homes were built, and interest in buying and building in the area seemed to wane. The Gayley Company decided that it was essential to generate some renewed interest and enthusiasm in the area.

There were a number of projects that the Gayley Company considered essential to the improvement of Gayley Estates before any new promotion program began. First, the company believed that attractive entrance-way corners should be planned for each entrance to the subdivision. Second, an improved identification sign for the estates was recommended to replace the billboard type previously used; the new sign would be carefully planned as a permanent placement to identify the area and would be designed with a sophistication consistent with the quality of the subdivision. Third, an extensive tree planting program was needed to continue the long-range development program for the area and to replace the many trees that had perished during a recent drought and had been removed. Fourth, a new dam for the small lake adjoining the Estates would be required along with the dredging and deepening of the lake and stream channel. These projects required a considerable outlay and if carried out would require an increase in the price of the lots from an average of $8,000 to an average of $12,000. The executives of the company were reluctant to borrow money to finance these projects.

The Gayley Company executives believed that they had to develop in the minds of the building and real estate community and the medium and higher social and economic home-seekers an awareness of the advantages of Gayley Estates for suburban building and living.

In appraising the opportunity for promoting Gayley Estates, the Company considered a number of factors. Gayley offered an area for homebuilding that was definitely superior to many of the subdivisions being offered for sale in the vicinity. There were a number of hidden qualities in Gayley Estates that were not immediately apparent to the typical viewer: there was an abundant water supply; the drainage of

the area was excellent; there was no flood danger; city dial telephones were available; excellent schools were nearby; and the property tax was relatively low. The move to the suburbs was a growing trend in American living patterns and its continuance seemed likely. There were a number of emotional appeals that might be used in advertising. Such appeals were the desire to enjoy comfortable living in the country, the desire to maintain the health and welfare of the family by living away from the congestion and confusion of the city; and the pride and social approval arising from land and home ownership. Logical appeals probably could be based on the direct advantages of suburban living and the special advantages of Gayley Estates over many other areas.

If advertising was to be used, The Gayley Company was convinced that it should be applied on the weekends, since real estate firms found that this is the time when persons interested in building were most receptive to ideas and when they had the available time to look at building sites and home areas. Sunday afternoons had also been found to be one of the best times for real estate sales.

The Gayley Company began collecting cost information on the use of various advertising media and consulted a local advertising agency. However, because the potential advertising budget would have been relatively small, and because the advertising would stop when the remaining building sites were sold, the advertising agency evinced little interest. As a result, the Gayley Company had made no decision on what course of action to take. Although the company's executives realized that some remedial action was necessary, because of the pride that the executives had in keeping the restrictions in the area, they were reluctant to turn the program over to a professional real estate company.

QUESTIONS

1. What procedure should the Gayley Company follow in selling the lots in Gayley Estates?
2. Faced with a limited advertising budget, what media should be used?
3. Determine what the average cost is to subdivide a 100-acre plot of ground? How many lots can be obtained? Give size and cost of these lots and average price of homes which should be constructed on these lots?
4. To what extent should the company improve the area? Give reasons.

California Prune and Apricot Growers Association — 82

INCREASING THE DEMAND FOR PRUNES

From nineteen hundred forty-two to nineteen hundred fifty-one, the per capita consumption of prunes decreased from 1.9 pounds to .8 pounds. As a result, a marketing research firm recommended to the California Prune and Apricot Growers Association, which packages prunes under the brand name, "Sunsweet," that it apportion part of its advertising budget for the expressed purpose of increasing the general demand for prunes.

The recommendation to advertise prunes was highlighted by the success of other associations in advertising their products. A few examples considered were the following:

National Turkey Federation in 1949 embarked on a program to stimulate year-round serving of turkey in restaurants and hotels. Through the right kind of aggressive promotion, it has succeeded in getting restaurants to offer turkey on menus every day in the year.

Cling Peach Advisory Board has done an outstanding job of dramatizing special salads and desserts to be made with peaches.

Idaho Advertising Commission, through several years' promotion of Idaho potatoes, has lifted this vegetable from a dull, every-day food to a specialty item pushed and promoted by thousands of restaurants. In Chicago, for example, Toffenetti's chain of restaurants has a constant special of ham and Idaho potatoes.

Florida Citrus Commission, in helping restaurants build breakfasts around Florida Orange Juice, developed a campaign that has paid dividends. *California Fruit Growers Exchange* is now urging restaurateurs to serve fresh, canned, or concentrated California Orange Juice.

National Red Cherry Institute has for years secured the cooperation of restaurants in its cherry pie promotion by calling readers' attention to the campaign and by supplying them with helpful promotional material.

The *American Dairy Association, Pan-American Coffee Bureau, The Tea Council, International Association of Ice Cream Manufacturers, The Washington State Fruit Commission,* and other similar organizations all have embarked on similar campaigns.

As the research agency pointed out to the association, "With basic food commodities like prunes, a continuous educational stimulus is needed to promote an increase in per capita consumption. Once the

results of the educational work have taken root with housewives, the medical profession, the home economists of the nation, and the processing industries, such as the commercial bakers and confectionery manufacturers, the private brands of prunes will begin to profit. Until the educational work is done, it is not economical to advertise only brand names."

Among the important ideas expressed in the study the research agency made were the following:

"Prunes are a fruit all of us have grown up with but, unfortunately for some, with the idea they were good for us but not just good to eat. Actually, I think they are delicious but there are people who haven't yet found this out. It seems important to me that prunes be sold to the homemaker on their own flavor merit.

"I find myself asking why the bulk of people who use prunes serve them stewed. Is it because it's the easiest way to prepare them or because of the nutritional factor or just what? The very fact that most people enjoy stewed prunes would indicate, I think, that you can't afford to ignore these rather overwhelming statistics in any plan.

"Personally, I don't think many people really understand nutrition or really care what foods they eat but, at the same time, I think more people are becoming aware of the importance of good nutrition.

"It seems to me that more recipes could be developed for using prunes in breads and muffins and cakes; also, for sandwich fillings to go in school lunch boxes. Blood donors need iron-rich diets, and this angle might be developed.

"I think there is a slight onus to the word 'prune.' 'Prune' is a word synonymous with derision. We note some of the advertisers describe prunes as 'plum prunes.' A plum, conversely, is synonymous with a rich find, that is, the nursery rhyme plum. How about dried plums?

"The average restaurant, hotel, or other public eating place does not use prunes consistently and profitably in menu-building. The fundamental problem is to arouse the interest of the nation's restaurateurs in the benefits and profit potentials of serving prunes. No doubt, if hotels and other eating places featured prunes, consumer use of the products would be affected favorably.

"Prunes should be used more often in salads. The deliciousness of prunes as a food, should be emphasized by having available the best combinations of prunes in recipe form.

"If the price of prunes can be held to not more than 20¢ per pound then volume can be maintained. When we raised the price of a one-pound package of prunes from 19¢ to 25¢, sales dropped off 80 per cent.

"Our volume on prunes goes up perceptibly when prices are lower compared to other foods, particularly canned fruit.

"Dried prune sales have fallen off during the past few years, and it seems to us they are gradually being eliminated from the diet of most consumers. We think that pliofilm has helped the sale slightly, but a great deal of advertising and missionary work must be done if the prune growers want to hold what little market they have left.

"I would recommend very strongly that you work closely with distributors who control their own retail outlets. With proper cooperation and sharing of promotional expenses, they can do a good job for you. Half of the sales on prunes comes from *impulse buying.*"

The above comments summarize the problems confronting the association. The association was aware that, because advertising was not a cure-all, spending twice as much money for that purpose would not alone guarantee results.

The marketing research agency faced very realistically the problem of increasing the per capita consumption of prunes and called its philosophy to the attention of the California Prune and Apricot Growers Association.

"Advertising can only capitalize on—not create—a desire. Advertising that sold orange juice to mothers derived its inherent power from the desire mothers have to feed their children well. That desire was there long before advertising or orange juice existed. The advertising told mothers about a new and better way to feed their children—a useful educational function—but it did not create the desire to do so.

"Since frozen orange juice was perfected and gained national distribution, consumption of oranges has increased rapidly. The sales gain last year was reported as 20 per cent.

"Essentially, there are two factors responsible for the success of an advertising program—the weight of the advertising and the message itself. That is why the emphasis in advertising today has to swing toward the advertising message—the creation of selling themes that can actually change people's minds.

"We cannot create the desire, but we believe that an educational program will result in the housewife purchasing prunes instead of some other competing food product."

General plan recommended

1. Have at least one or perhaps two great sales drives during the year tied up with incentive plans for getting support of supermarkets and chain stores.

2. Enlist the support of the entertainment industry in Hollywood in staging a big night television show as the key feature of the drives. Recruit prominent actors to help push one of the state's most important agricultural products.
3. Tie into all advertising, promotion, and publicity a new recipe booklet on prunes, sponsored by a well-known radio or television personality.
4. Plan a dynamic Price Prune Display Contest for unusual mass displays ("Guess how many prunes there are in this exhibit"); tie-up displays with manufacturers of related items—cottage cheese, dessert mixes like Jello, the Meat Institute, and cereal manufacturers.
5. Engage three or four experienced food promotion men to work as missionary salesmen in the field. They will contact supermarkets, chains, and cooperative store groups such as Red and White, Buy-Rite, United Grocers, A.G.A., and many others.
6. Run a campaign in hotels, restaurants, cafeterias, and lunchrooms in which special recipes will be developed.
7. Include in the advertising schedule such consumer media as television, radio, newspapers, billboards, and weekly magazines (*Life, Saturday Evening Post,* and *American Weekly,* women's magazines, and farm publications).
8. Plan tie-in with supermarket institute, chain store, and other grocery conventions and effective displays and promotions to bring the prune campaign to the attention of every food store buyer and merchandiser. Place advertising in the national and regional grocery publications.

QUESTIONS

1. Is the plan of the marketing research agency for advertising "prunes" instead of the association's own brand, "Sunsweet," a sound one?
2. Would not growers of prunes in Oregon and other states benefit equally from this general advertising?
3. When an industry is faced with a declining per capita trend, what results would you expect from a campaign of this type?
4. Do you agree with the marketing agency that advertising cannot create a desire for a product?
5. Do you believe the plan the agency recommended is a satisfactory one? Are there any changes you would recommend?
6. When the demand of consumers has shifted to new products, would a campaign of this nature increase the volume of business sufficiently to make it economically sound?

7. How important is "price" to the consumer in choosing between products like prunes, peaches, apricots, oranges, and apples?

Carlson Lock Company (B) — 83

PLANNING A CONTEST TO STIMULATE SALES

A marketing study was made recently by a large advertising agency to determine why buyers purchased one lock in preference to another. The results showed that, next to price, design appealed most to the various consumers in the market: architects, merchant builders, individual contractors, contract dealers, and the home buyers.

As a result, the agency recommended that the Carlson Lock Company conduct a new design contest. Such a contest would stimulate much discussion, thought, and probably some new ideas.

Carlson's knob designs, metal finishes, new escutcheons, and backset effects have provided the principal new styles in locks, and other manufacturers have copied Carlson's innovations. The agency emphasized that a contest of this kind would develop many new ideas on lock styling. Contestants would submit designs of the exterior appearance of the lock, knob, backset, and escutcheon. These designs would make an interesting exhibit for building shows, and the contest itself would serve as a basis for magazine articles.

The agency believed that it was not important how many really outstanding, practical designs came out of the contest. Even if only two or three designs were worth adopting, the cost would be justified by the publicity and advertising value of the contest. It would show that Carlson was the leader in the field of cylindrical lock design.

Today, the consumer is informed on the scores of building materials and equipment entering into home construction: General Electric products, Pittsburgh Plate Glass, Bruce Floors, Weldwood, Mosaic Tile, Formica, Armco Iron, aluminum products of all kinds, Chase Copper and Brass, Revere Copper, Crane Plumbing, and numerous others. Many of these materials are never seen by the user; yet locks are seen and used every day. Because they have only recently been called to the attention of the consumer, the finer points of lock construction and design are just beginning to be appreciated at the consumer level.

In talking about such a contest, the majority of architects agreed that it would be extremely worthwhile. As one of the editors of a leading architectural publication stated, "Such a contest, it seems to me, would attract particular interest, and it would, I should think, be possible to put the spotlight on the recent improvements that have taken place in the installation and operating details of lock hardware."

The agency had studied carefully the memorandum prepared by Kenneth K. Stowell, AIA, which gave the complete procedure adopted by the American Institute of Architects on architectural competitions. The agency had also conducted competitive contests for other clients and was in a position to handle the contest on a very fair and impartial basis.

The agency believed that such a contest would bring Carlson's design to the attention of thousands of small architects and young men who were not familiar with Carlson's background. These were the very men whom Carlson wanted to reach.

The cost of the contest, including prizes, literature, and other incidentals, would run to about $15,000. The first prize would be $5,000; second prize, $3,000; third prize, $2,000.

To arouse interest in the contest, the agency recommended that Carlson advertise in such trade and architectural publications as *Architectural Record, American Builder, Building Supply News, Magazine of Building, Locksmith Ledger, Progressive Architecture, Hardware Retailer, Practical Builder,* and *Hardware Consultant and Contractor.* The cost for this advertising would be between $50,000 and $75,000.

Such advertising in the trade publications could do a twofold job —arouse interest in the contest and, at the same time, give some advertising message. The fact that Carlson developed the button lock, now shared by other manufacturers of cylindrical locks, just as Buick shares its valve-in-head engine, or Iron Fireman its worm construction for stoker operation, would make an interesting advertising story.

In reaching the home buyer, the agency felt that Carlson could take its story of lock design direct to the consumer. Many magazines devoted to home planning, equipment, and furnishings are read extensively. Such publications as *Better Homes and Gardens, House Beautiful, Home and Maintenance,* and *Building Manual and Small Building Guide* would give advertising impact for Carlson in getting its message of quality and design to the consumer.

QUESTIONS

1. Do you believe the contest, planned to stimulate interest among architects and builders, would have much impact on the home buyer?
2. What are the advantages and disadvantages of a contest of this nature?
3. What kind of response might Carlson expect to receive from the contest?
4. Would a contest appealing to the home buyer instead of to the architects and builders be a more satisfactory one?
5. Should the Carlson Lock Company accept the recommendation of the advertising agency and use the design contest plan?

The Seeton Packing Company — 84

THE IMPORTANCE OF THE USE OF GRADE LABELING

James A. Seeton and Ralph I. Seeton, started a fruit and vegetable packing plant in Albany, Oregon. Both brothers had had their experience in the production aspect of the packing industry. They had been able to buy a small but well-equipped plant, and with their technical knowledge and their proximity to Willamette Valley fruits and vegetables, they were able to produce a small quantity of very high-quality canned foods.

At the outset, they were able to sell all they could produce at a satisfactory margin to food chains for private branding. During the next several years, as consumer goods became more plentiful, they had to accept several reductions in price. In the meantime, through research in processing methods, they had been able to apply a new method of heat treatment which cooked vegetables and fruits so quickly that their canned foods came out of the cans at almost the peak of sun-ripened condition.

Feeling that they had a product far superior even to the highest grade of canned goods usually sold, the Seetons approached buyers of several of the chain store firms and several large independent food stores as well to determine the acceptability of a line of canned foods under a Seeton brand. In every case, they were told that there would be no interest in an additional packer's brand unless consumer preference for it had been established. Between the private brands for each firm and the several well-established packers' brands, the food com-

pany buyers felt that public demand was being adequately satisfied, and that an additional brand would merely increase inventory and decrease stock-turn.

One buyer suggested that the Seetons continue their private brand business as a mainstay, but attempt to get a Seeton brand into small grocery stores through intensive selling effort. Because the brand would be new, the buyer suggested that the Seetons rely on government "grade labeling" as an indication of satisfactory quality. The buyer believed that, in time, it might be possible for the Seetons to broaden the distribution of their own brand, even after a small and limited start, as consumers became familiar with the high quality of the foods so branded.

On looking into the possibilities of grade labeling, the Seetons found that, though the original U. S. Food and Drugs Act of 1906 and the Meat Inspection Act of 1906 had attempted to safeguard consumers from impure and unsafe foods and drugs, it was not until 1940 that the Agricultural Marketing Service of the Department of Agriculture offered a formal grading service for canned foods. Under this service, a Department of Agriculture inspector is stationed in each cannery or packing plant using the service, to inspect and grade a sample of the output; if these frequent samplings do not fall below standards, the firm is allowed to use the Agricultural Marketing Service designation, U. S. Grade A, U. S. Grade B, or U. S. Grade C —whichever is appropriate. The cost to the packer is only the cost of maintaining such continuous inspection during his periods of production.

Mr. James A. Seeton investigated the basis on which grades were established. He found that, in the case of canned peas, the grade was determined by freedom from foreign material (small stones, bits of vine, and so on), percentage of solid content, the uniformity of size of the peas, the degree of softness or crushability (technically called "succulence"), and the color. There was no consideration of flavor or nutritional value. In the case of tomatoes, the grades were established by freedom from foreign material, percentage of solid content, wholeness of tomatoes, and shade of red as measured against a black background by Munsell color disks.

In every case, the standards for U. S. Grade A were considerably below the quality maintained by the Seetons. Moreover, he learned that very few of the private brands distributed by the large chain store firms, and almost none of the widely accepted, nationally ad-

vertised brands used grade labeling. Most of the firms using grade labeling for canned foods were regional firms and small volume distributors.

On the other hand, several of the larger chain grocery firms used a descriptive label which showed, in accurate lithographic reproduction on the label, the size, shape, and color of the contents of the can.

On the basis of their investigations and discussion, it was decided that Mr. James A. Seeton would operate the packing plant, hiring a young man with agricultural college training to help him buy produce; Mr. Ralph I. Seeton would attempt to establish the Seeton brand, using an adequately descriptive label, with smaller independent grocery stores, in the hope that they could establish in the minds of consumers the superiority of the Seeton pack, and ultimately broaden their distribution and support it with consumer advertising.

QUESTIONS

1. How important is grade labeling to the average consumer?
2. Why is it that the large chain stores and national packers do not make use of grade labeling to a greater degree?
3. When a company is producing a product that exceeds the standards for Grade A, would it be wise for such a firm to make use of the U. S. Department of Agriculture service?
4. Would the quality of the products be higher or lower under a system of grade labeling? Do you believe it would be sound to put this labeling on a compulsory basis for all concerns?
5. If a compulsory system were adopted, would it still be advantageous for the packers to use individual brand names?
6. Would the consumer be protected more fully under a system of grade labeling?
7. Should the Seeton Brothers make use of grade labeling for their products?

O'Brien's of California, Inc. — 85

ESTABLISHING NATIONAL DISTRIBUTION

In January, 1947, the government agent notified O'Brien's of California, Inc., that the Armed Forces planned to decrease purchases of

vacuum-packed candies to $50,000 for the year 1947. O'Brien's had sold $1,357,482.92, or 61 per cent of the company's vacuum-packed candy sales of $2,212,974.65 to government outlets in 1946.

Faced with the loss of this volume of business, the company immediately began to review its position in the market to determine whether or not it would be economical to seek more intensive national distribution.

Although national distribution was started in 1940, it had not been possible to develop the markets intensively because of the shortages that existed during World War II. In 1945 and 1946, $25,000 had been spent on national advertising. Outlets were established in the larger cities in the United States, and sales in the civilian market increased from $225,125 in 1945 to $345,117 in 1946.

Mr. Charles O'Brien, Jr., asked his advertising agency to prepare a report on the distribution and advertising program that the company should follow in 1947. The agency made a check and found that among the consumers who had purchased O'Brien's candies, the company's vacuum-packed products ranked best in the industry. The quality was superior, and the price seemed to be low enough to meet the price competition of any new vacuum-packed candies that might be put on the market.

In the report that the agency made to the company on March 1, 1947, it recommended that the company change its policy of selective distribution and go after intensive distribution on a national basis. It was the recommendation of the agency that an advertising budget of $175,000 be set aside for 1947 and of this amount, $150,000 be used primarily for national and trade advertising. The other $25,000 would be used for point-of-purchase displays and other promotional material.

The agency emphasized that the company should use sales agents in the distribution of its products to all purchasers and that no direct sales should be made to any outlet. These sales agents would be given exclusive agreements and would be credited with all sales in their respective territories, whether or not they were made through their own efforts.

The agency also recommended that the company make arrangements at once to have the finished goods warehoused in Detroit, St. Louis, Kansas City, Seattle, New Orleans, Denver, Miami, Des Moines, Oklahoma City, Columbus, Topeka, Beloit, Buffalo, Cincinnati, Providence, Atlanta, Birmingham, Indianapolis, Youngstown,

Memphis, Dallas, Hartford, Norfolk, Louisville, and Dayton, besides the eight cities in which warehouse arrangements had already been made.

Because the inventory on hand had increased from $365,721 in January, 1947, to $483,016 by March, 1947, it was important that some immediate action be taken.

The vacuum-packed candy business of the company was started in 1939 to determine if distribution of O'Brien quality candies could be obtained beyond the limits of the area served by the San Jose store. The first candy selected for distribution and packed in vacuum cans for this purpose was Nutti Brittle, one of the most popular candies sold at the retail store for many years.

Although sales in the initial period were slow, studies and investigations made at this time by Mr. Charles M. O'Brien, Jr., convinced him that vacuum-can packing would preserve the qualities of candy and make possible national distribution of various of the O'Brien candies. As a result, in 1940 Nutti Brittle was placed on sale in several of the larger cities in the East and Midwest.

In the years 1940-1941 sales developed slowly, with promotional costs high and profits limited. To expand the national distribution beyond the limits of the few cities previously sold in, the national promotion and distribution of the vacuum-packed candies was placed in the hands of sales agents. A sales agent was appointed in March, 1942, for the 11 western states. Imposition of sugar rationing in April, 1942, however, severely restricted further national expansion because of the limiting effects of the sugar rationing on the production of candies for civilian use.

In 1943, the Army and Navy began to buy O'Brien vacuum-packed candies for use in tropical and sub-tropical areas. These candies were also sold inside the United States in Army post exchanges. During the fiscal years ended June 30, 1944 and 1945, sales to government agencies comprised 58.8 per cent and 73 per cent, respectively, of the combined sales of vacuum candies and all other sales of the company.

Resumption of expansion of national distribution on a limited scale came in November, 1945, with the appointment of five additional sales agents to cover the eastern, southern, southwestern, and middle western sections of the country.

The business of the company grew from the original O'Brien's candy store established by Mr. Maurice O'Brien in San Jose, Cali-

fornia, in 1868; in January, 1947, the company was the largest producer and seller in the United States of candies packed in vacuum cans.

Vacuum packing of candies reduces to a minimum the effects of heat, cold, light, humidity, excessive dryness, and other climatic conditions. Under normal merchandising conditions, the candy is received by the ultimate consumer almost as fresh as when first made. Vacuum packaging makes it possible to sell these candies throughout the United States on a year-round basis, particularly in the areas where summer heat and humidity make it difficult to retail candies containing chocolate, nuts, butter, or other perishable ingredients.

Sales operations

Candies are sold in the civilian market primarily through drug and department stores, with some distribution through grocery and cigar stores. Three candy items are sold at the following retail prices: Almond Crunch at 89¢ for a 12-ounce can, Brownies at 66¢ for a 12-ounce can, and Nutti Brittle at 39¢ for a 10-ounce can. The retail price reduction is based upon elimination of jobber's discounts and a smaller retailer's markup. No reduction was made in the company's wholesale selling price.

Curve of seasonal influence in the company's vacuum-packed candy sales is approximately as follows: Peak sales occur during July-August-September, with a declining trend to the following March-April period and a rise thereafter to the peak period.

All candies are sold under the O'Brien trade name. Majority of trade marks are registered, with registry applications in process on the balance. Exclusive of Army and Navy business, dollar volume of sales of vacuum-packed candies for the 10 months ended February 28, 1947, in the following territories was eleven Western States, 21 per cent; Middle West, 21 per cent; New England, 5 per cent; New York-Pennsylvania-New Jersey, 20 per cent; South and Southwest, 33 per cent.

Finished goods are warehoused at Chicago, Boston, New York City, Philadelphia, Pittsburgh, Jacksonville, Tampa, and Houston. The company anticipates that larger warehouse stocks at these points may be needed in order to make quicker delivery on sales than has been necessary in the past.

Manufacturing operations

The company uses production line methods in the manufacture of its candies. Three processing lines are operated, which encompass all steps from cooking to final packing of the cans in shipping cases. The company has developed many pieces of the machinery used. The capacity of the plant is such that present facilities are capable of some 50 per cent greater production.

Competition

Other manufacturers distribute nationally candies packed in glass and fiber containers and in cans, with vacuum cans being used in some instances. In regard to vacuum packing, however, the company has the largest distribution of vacuum candies. National distribution of the company's vacuum-packed candies is relatively new in the candy field and has developed since 1945. As a result, the company is not in a position to forecast the amount and nature of increased competition from other manufacturers who may attempt to expand their vacuum-packed candy manufacturing and distribution.

Advertising

Magazines with large national circulation, as well as trade publications, were used in advertising the company's candies. A personalized type of message was featured in the advertisement, with a portrait sketch of Mr. Charles M. O'Brien, Jr. identified as "Señor O'Brien from San Jose," in a Spanish fiesta hat with a shamrock in his buttonhole. Other advertising includes direct mailings to wholesale jobbing accounts and the supplying of newspaper mats and colored display material for use at the point of retail sale.

The balance sheet and statement of income of O'Brien's is given in Schedules I and II.

Schedule I

O'Brien's of California, Inc.
Balance sheet
February 28, 1947

Assets

Current assets:		
Cash		$ 209,568.51
Receivables		
Customers' accounts	$111,282.08	
Notes	2,150.00	
Accounts receivable officer	10,973.86	

	$124,405.94	
Less reserve for bad debts	6,703.25	117,702.69
Inventories, at cost (not in excess of market):		
Raw materials	$155,693.10	
Work in process	12,406.61	
Finished goods	246,621.01	
Packaging and other supplies	68,295.62	483,016.34
Total current assets		$ 810,287.54
Prepaid insurance, rents, taxes, etc.		25,137.78
Property, plant, equipment at cost less reserve for depreciation:		
Land	11,144.84	
Building	174,736.94	
Equipment	450,528.45	
	$636,410.23	
Less reserve for depreciation	36,738.88	599,671.35
		$1,435,096.67

Liabilities

Current liabilities:		
Accounts payable-trade and misc.		$ 130,307.64
Accrued liabilities		
Salaries, wages, and bonuses	$ 30,420.46	
State, local, and misc. federal taxes	16,284.79	
Federal income taxes	37,426.57	84,631.82
Total current liabilities		$ 214,939.46
Capital stock and surplus:		
20,000 shares of $1.35 cumulative preferred stock	$500,000.00	
77,565 shares of no par common stock	600,000.00	
Paid-in surplus	57,998.06	
Earned surplus	62,159.15	1,220,157.21
		$1,435,096.67

Schedule II

O'Brien's of California, Inc.
Statement of Income
For ten months ended February 28, 1947

Net sales:	
Candy wholesale	
Government	$ 357,482.92
Civilian	1,345,117.00
Other	510,374.73
Net sales	$2,212,974.65

Cost of sales:	
Candy wholesale	$1,200,197.64
Other	316,807.98
	$1,517,005.62
Less purchase discounts	8,492.99
Cost of sales	$1,508,512.63
Gross profit on sales	$ 704,462.02
Selling, general, and administrative expenses	544,970.17
Income from operations	$ 159,491.85
Other income	1,700.24
Net income before federal taxes	161,192.09
Provision for federal taxes on income	66,869.61
Net income	$ 94,322.48

QUESTIONS

1. Should O'Brien's follow the recommendation of the advertising agency and attempt to distribute its vacuum-packed candy on a national basis?
2. If it decides to merchandise its candy on a national intensive basis, what merchandising plan should the company follow?
3. What outlets should the company plan to use at the retail level? Would it be well for the company to include chain stores and supermarkets? Why or why not?
4. Should O'Brien's attempt to control the retail price at which its candies would be sold?
5. Evaluate the advertising program that the company used. Is it well to extend the personalized basis that has been used to date?
6. What would you think of O'Brien's using a selective method of selling instead of an intensive approach?

Hilltop House — 86

DEVELOPING A RESORT MARKET

Hilltop House was a small summer resort occupying six acres of land about 120 miles from Boston. For a weekly fee, a guest received his meals, his room, and the use of all available facilities.

The business was started fifteen years ago in a renovated six-room

farm house. The Barton family, which includes Mr. and Mrs. Barton and their son, operated the place with the help of two employees.

By five years ago, the original place had been expanded to include an enlarged dining room and two separate cottages, each with five sleeping rooms. The house and cottages had been renovated so that there was a bath with every room. The six acres of land were divided by a main road, which made about three acres useless. Swimming was the only available sport. Hilltop House provided transportation once a day to and from a good size stream about a mile away. In that year, Hilltop House grossed $20,000.

When the son graduated from college, he and his parents decided that the entire place should be expanded and improved. After looking into the possibilities of improving the original buildings and increasing recreational facilities for guests, they realized that a change of location was necessary. The present six acres had no place suitable for a tennis court and no possible place for additional buildings for guest rooms. Improving the existing facilities in order to raise the rates would have involved an expenditure far out of line with any possible future returns.

Accordingly, last year, the Bartons purchased a large summer home about one mile from Hilltop House and started renovations to make the place ready for that summer.

To provide better facilities than those offered at the old Hilltop House, the Bartons put a great deal of care and money into the construction. A tennis court, a handball court, and a children's playground were built. The stream was now on Hilltop House property and within walking distance. Plans were made to improve the menus by providing a greater variety of food and a more elaborate system of serving. To add to the atmosphere, informal entertainment was planned for week-end evenings. All these changes and improvements were in keeping with the Barton family's idea of giving their guests more for their money each year.

To help determine the price to be charged by the new Hilltop House, the rates of nearby resorts were checked. The Bartons found that only one resort could be used for comparison because the others were out of the Hilltop House class. The rooms at this resort were not as spacious nor as comfortable as those at Hilltop House and from all reports the food was not as good. Mrs. Barton had always supervised the kitchen, and many guests returned each year for the food alone. The other resort charged $100 per week for a woman and

one child in an inside room and offered discounts of 5 per cent and 10 per cent for reservations made out of season. The Bartons decided to use these figures in setting their rates for the season.

Hilltop House is fairly well removed from the heavy concentration of resort hotels. However, the present tendency among vacationers seems to be away from the overcommercialized atmosphere, and the Bartons hope to take advantage of this trend.

The new Hilltop House has room for about a third more guests than did the original resort. To fill this space to capacity, a more intensive form of advertising and promotion must be instituted. Up to now, almost all guests had been obtained by word-of-mouth recommendations. Whereas the turnover of guests in the past was fairly complete, this type of business requires new customers each year. At this point, Hilltop House needs a lot of new customers, partly to replace the old ones who may be unwilling to pay the higher price, and partly to help fill the added capacity.

The only advertising so far planned is to have a neatly designed and printed brochure made up and sent out by direct mail. The previous guest list will be used as a start, and then other selected lists from various sources will be used. By using a direct mail system of advertising, Mr. Barton feels that there will be some amount of preselection of guests. If reservations are not received in great enough quantity, newspaper advertising will be used. This phase of the business, namely, the problem of promotion, is something about which the Barton family needs a lot of advice. The house is usually filled to capacity during the last two weeks of July and the first two weeks of August. The weeks before and after are the slack periods, and these are the times for which Hilltop House must advertise. The problem is how to spread out the clientele over the summer.

Those who have come to Hilltop House in the past have been mostly professional people—doctors, lawyers, school teachers, accountants, and some businessmen. The Bartons hope to maintain this clientele in the future.

QUESTIONS

1. Considering the change in location, the improved facilities, and the increased costs, what price should be charged at Hilltop House?
2. How can the Bartons reach the middle-income family intent on a vacation?

3. How can these families be convinced that the beginning and the end of the summer are good times for vacations?
4. What means of advertising and sales promotion should the Bartons use?
5. Are there any additional facilities that you believe are needed?
6. Should the Bartons use both the American and the European plans of pricing?

Anderson and Reynolds, Inc. — 87

DEVELOPING A SALES APPROACH

Anderson and Reynolds, Inc., has been engaged for two years in custom molding of fibre glass and plastic combinations. The firm is located in the Los Angeles metropolitan area, and has been doing most of its work in the marine and sporting goods fields, typically obtaining orders by bidding under other competitors. It is one of about 100 similar firms, all doing similar contract work and obtaining business because of the rapid growth of fibre glass applications.

Although the company has carried on no advertising of any kind, and has had no salesmen representing it in the market, it has grown rapidly, and enjoyed a total volume of sales of $400,000 during the last calendar year. Both Mr. Anderson and Mr. Reynolds are interested in the production problems of the company, and have developed new plastic combinations that promise to provide greater dimensional stability and greater rigidity than most fibre glass moldings.

If the new technical developments prove to be as much of an advance as preliminary laboratory specimens suggest, Anderson and Reynolds may have a sufficiently distinctive product to justify a change in marketing policies. Because both the principals in the firm were primarily production men, they sought advice from a consultant, who told them they had the following courses of action to choose between:

Firstly, they could apply their new combination of materials to the manufacture of a product that they could manufacture and market. Many firms had attempted to make fibre glass boats, fibre glass fishing equipment, and fibre glass camping tops for pick-up trucks. Mortality has been high among such firms.

Secondly, they could attempt to sell their services as custom molders over a wider territory—possibly even nationally. Few molders who did not have some sort of patent protection had been able to serve a

national market because of the high cost of shipping molded shapes. Yet if the new materials constituted a great enough improvement, this improvement would overbalance the cost of shipping fabricated parts.

Thirdly, they might try to get some patent protection on the use of the new materials, particularly if they needed some specially adapted equipment to use them, and attempt to license their new formula and equipment to other molders.

Fourthly, they might seek to widen their list of local customers and try to get them to turn to Anderson and Reynolds because of the availability of the new formula and improved products, instead of giving them work only when they underbid other custom molders.

Anderson and Reynolds had started their business on a shoestring, and had very little working capital. All of their bills were paid when due, but they rented the space in which they worked, and owned little more than mixing machines, molds, tools, and an inventory of materials. The two principals in the firm realized that they did not have an impressive financial statement, and that they could not, therefore, borrow funds for expansion. They were reluctant to try to sell an interest in their firm. In the first place, they were not sure that they could do so, and in the second place, they did not want to lose control of a business they themselves had built up.

Their problem, then, was to decide how they could best exploit a new formula with a minimum investment in marketing expenses.

QUESTIONS

1. Which of the 4 methods of improving their market position should Anderson and Reynolds attempt to follow?
2. Why had they previously worked on a low-bid basis? Is it likely they can modify that method now?
3. What method of sales promotion should they rely most heavily on?

Television Station Y — 88

APPRAISING THE IMPORTANCE OF RATINGS

During the first part of this year, executives of Station Y, a leading television station in a large midwestern city, were concerned over

audience ratings, which were being affected by competition from a new television station in the area and by expansion of another station's programing.

The total territory covered by Station Y was estimated to include 1,750,000 households. Roughly half of this figure was within the optimum reception areas. The effective buying income within the total area was approximately eleven billion dollars.

Station Y maintains four studios from which live shows may originate. There are no facilities for live color broadcasts, though the station has the equipment to run colored movies.

According to Station Y's contract with the national network with which it is affiliated, 60 per cent of the programing is done by the network. Direct national programs with sponsors are scheduled during the best or prime hours each day. The balance of the programing, done by the station itself, includes local live shows and movies. The primary marketing function at Station Y is, therefore, to find sponsors to whom this time may be sold. The programing, sales, advertising, and sales promotion, publicity, and engineering departments of Station Y are on the same organizational level. The programing department is responsible for the buying of programs and movies and for the scheduling of the daily operations log.

Each minute of the day is carefully accounted for so that there is absolutely no lag on the television screen. Movies are obtained from film supply companies. Movie times are often sold in package deals; some are sold with commercials included.

The sales department must sell the programs and movies that the programing department has purchased. Sponsors for local spot announcements as well as for the backing of complete programs must be found. Usually most of this time is sold directly to advertising agencies. All salesmen are paid on a commission basis. In their sales approach they may use as selling aids the statistical reports, rate tables, ratings, and brochures prepared by the advertising and sales promotion department.

It is the function of the advertising and sales promotion department to promote programs to be viewed and to work closely with the sales department. The placing of spot commercials, newspaper advertisements to promote local and national shows, the preparation of slides, copy, and visual material and artwork, the preparation of a trade magazine advertising brochure, and direct mail advertising, are all important functions of this department.

The standing of a television station is based largely upon the ratings it receives from rating services; however, there are other bases to be considered in measuring a television station. Total billings or the money spent by advertisers during the year for programs is another well-recognized measure. If only this measure were used, Station Y would rank second in importance in its area. The technical evaluation of a station's facilities, or the territory in which a given station's program can be seen (cost per person potentially reached), may also be used as a measure in ranking the standing of a television station. However, ratings play a major part in the television field. The life of any television show frequently depends upon the ratings it earns from one of the rating services, regardless of whether the show has a sponsor.

To illustrate the importance of ratings, a special musical program was designed to appeal primarily to the high school age level and started on Station Y. Although the program had achieved popularity with the teenagers, and, although the sponsor was satisfied with the results, the program continued to receive very low ratings over a four-month period. Since Station Y was trying to raise the rating of a news broadcast that immediately followed this program, the teenager's program was dropped. A month after the program was dropped, ratings were released that showed that the teenager's program had risen appreciably in popularity.

Factors such as the quality of a program, the timing of a program, the type of program, the length of time necessary to build a good rating against the competition of other channels, and the advertising efforts involved in a program's promotion must be considered.

Currently, the program ratings of Station Y are being adversely affected by a new television station that is operating on a part-time schedule. Another local station that is affiliated with a national network has purchased a packet of movies that have proved to be extremely popular and that are run simultaneously with a major portion of the Station Y's local broadcasts. These local broadcasts earn station Y its greatest profits.

Promotional methods and techniques now being used by the sales department include the following:

1. A special TV magazine is used to tell retailers of the brand consciousness created by Station Y.
2. Brochures for individual programs are used as selling aids in promoting those programs for which time must be sold. These brochures

describe the program, the audience and audience ratings, and the type of commercials that may be used on a particular program.
3. A follow-up brochure is used to emphasize to the sponsor the high rating a particular show has received, and to show the sponsor what a good job Station Y has been doing for his particular product.
4. Local trade advertising is used to reach advertisers and distributors of consumer products who might be persuaded to use Station Y in their marketing mix.
5. Weekly programing schedules are sent to local advertisers.
6. Rate books are published that give the basic time rates for programs during different hours of the day, the rates for spot announcements, and the rates for participation in special features, which are sold on a cost per minute basis.

It is the audience promotion assistant's job to promote Station Y's programs and thereby increase the ratings. Follow-up work is important in keeping the programs sold. A list of the specific duties of the audience promotion assistant follows:

1. Place spot announcements that advertise programs to satisfy contractual obligations with sponsors and to build audience ratings for either unsponsored shows or sponsored shows with poor ratings. These spots call attention to the time and the content of the programs. To a large extent, the number of spot announcements is dependent upon the amount of unsold time available.
2. Place newspaper advertisements under similar circumstances. Reciprocal arrangements made with local newspapers allow some advertisements to be placed in the newspapers without charge in return for free spot announcements on television advertising the newspapers.
3. Place audience promotion advertisements in a TV magazine that is sold at most newsstands and grocery stores.
4. All advertising for audience promotion contains direct appeals to listeners to watch particular programs.

QUESTIONS

1. How important are audience ratings to a sponsor in selecting a television program?
2. Evaluate the different methods of rating television programs.
3. What factors other than audience ratings should buyers use in selecting a television station, a particular program, or a specific time?
4. What could Station Y do to reduce the reliance of buyers on the audience ratings?
5. Was the over-all promotional campaign of Station Y well coordinated?

FOURTEEN

Public regulation of marketing

J. J. Weitzel — **89**

CONSIDERING A RETAILER'S POSITION UNDER FAIR TRADING

J. J. Weitzel took over as manager of the Weitzel Appliance Store four years ago. The Weitzel store had been in the family for three generations and over the years had developed a loyal clientele.

When the young Mr. Weitzel replaced his father as manager, he decided that he would put some new aggressive ideas into effect in order to attract more customers. The policy of Mr. Weitzel, Sr., had been very conservative and, as a result, the store had not made any significant progress during the past five years.

The first thing Mr. Weitzel, Jr., did was to have a store-wide sale in which all items were marked down 10 per cent. The response was

very satisfactory, but he immediately began to receive complaints from other dealers in the area. He told them that he had the right to cut prices because at no time had the Weitzel store signed a contract with a manufacturer to sell products at any fixed retail price.

Mr. Weitzel continued to cut prices and was informed in the early part of last year that he was one of 145 individuals against whom a major appliance manufacturer had filed a complaint for not abiding by the resale price that had been set for the state by the said manufacturer.

In 1937, the Sherman Act was amended by the passage of the Miller-Tydings Bill. This amendment provided that a manufacturer of a trademarked or otherwise identified product had the right to establish the resale price at which the product could be sold. For a manufacturer to take advantage of this privilege, he had to sign a contract with at least one distributor and then notify all other distributors in the state. All these other distributors were then obligated to maintain the price set in the contract.

In May, 1951, John Schwegmann, Jr., the New Orleans supermarket operator, broke fair trade when the Supreme Court, in Schwegmann Brothers *et al.* vs. Calvert Distillers Corporation, declared nonsigner's clause in interstate trade was illegal under the Miller-Tydings Amendment.

However, through the efforts of the National Association of Retail Druggists and other groups, the United States Congress passed the McGuire Act in 1952 again legalizing the "nonsigner" clauses. Under the Act merchants are legally bound to stick to fair trade prices whether or not they have signed contracts. John Schwegmann again tried to make a test case of his refusal to sign a contract, but the United States Supreme Court refused to review the Lilly-Schwegmann case in 1953.

The arguments against resale price maintenance include the following:

1. It is not logical that a producer should bind every retail and every consumer in a state by entering into a contract with one retailer.
2. There is no reason for the housewife to have to pay one price regardless of where she makes her purchase
3. Prices are not marked down on a few articles (loss leaders) to lure customers into a store where they will be required to pay higher prices for other articles. Markups are uniform but are low and are based on low-cost merchandising.

4. Fair traders are interested in one thing—price fixing to avoid competition.
5. The object of fair trade legislation is to shield the marginal or high-cost retailer.
6. Prices to the ultimate consumer are higher under resale price maintenance.

The arguments for resale price maintenance emphasized such points as:

1. The manufacturer's property rights in the goodwill of his trademark will be protected.
2. It requires businessmen to compete on the bases of skills, efficiency, ingenuity, hard work and service, and not on the basis of price alone.
3. It will prevent price discrimination.
4. Without the law, detrimental price wars will develop.
5. Predatory loss selling, which is unfair to the consumer, will be used.

QUESTIONS

1. Do you believe that, under a system of resale price maintenance, prices are higher or lower to the ultimate consumer?
2. How significant is the argument that fair trade legislation shields the marginal or high-cost retailer?
3. Why is the National Association of Retail Druggists so interested in maintaining resale price maintenance?
4. Why are those who favor resale price maintenance so fearful of "loss leader" merchandising when states already prohibit selling below cost at a reasonable markup?
5. From the economical viewpoint, is it better for Weitzel to maintain his retail prices and give larger amounts on the trade-ins, or to drop retail prices below the amount set by the manufacturer and offer lower amounts on the trade-ins?
6. In the interim period, before the complaint against Weitzel is tried, what policy would you recommend that he follow?

Doe Publishing Company — 90

GRANTING SPECIAL PRIVILEGES

The Doe Publishing Company is engaged in the publication of educational books for text and general reference use. The company sells the

books to different wholesale and retail outlets throughout the United States.

These outlets were placed into certain arbitrary classifications by the company, and on the basis of the classification were granted different services or facilities in the handling, sale, or offering of the books. Among such services was the acceptance for credit of unsold copies of books in the educational division.

The classifications that the company had established were the following:

1. The retail outlets that sold primarily new books to students for use in connection with classes.
2. Purchasers owning or operating two or more places of business that buy second-hand educational books and resell them to retail book stores and/or students.
3. Firms that handle as a substantial part of their activities second-hand books through two or more outlets.

The Doe Company had established a *Return for Credit Policy* that applied only to the first classification, or to those stores that sold primarily new books to students for class use. The policy was stated in the catalog of the Doe Company as follows:

"We will accept for full credit up to 33 1/3 per cent of the number of copies of any title listed in this catalog which has been ordered directly from us, providing that the books are returned in a perfectly fresh and saleable condition within 60 days after the opening date of the term or semester for which they were ordered, all transportation and carriage charges prepaid. We reserve the right to reship to the sender, without notification, transportation charges collect, any returns not in accordance with the above."

The Doe Company refused to grant this return privilege to the other outlets and contended that it had to offer this service to the book stores that sold new books for class use because these stores could not forecast accurately what the enrollment in certain classes at the various universities would be.

Even in the instances where a school has preregistration, predictions as to the number of students who will take a given class may vary as much as 50 per cent in the actual enrollment. The professor wants the students to get copies of the text in time for the first class and, as a result, the bookstore has to have an adequate supply of texts on hand. To help solve this problem, the Doe Company granted what it considered a satisfactory return privilege.

On the other hand, although the other types of outlets sold a limited number of books to students, the bulk of their business was in second-hand or wholesale books. The Doe Company believed that it had a right to differentiate between the services it offered because the outlets were not all doing the same kind of selling.

The firms that were not granted the return privilege insisted that they were put at a disadvantage in competing with the stores that did secure it. In placing orders with the Doe Company, they had to buy on a hand-to-mouth basis because they could not afford to take the risk of having extra copies of texts left in inventory after the semester got underway. As a result, these outlets purchased only a limited number of the texts during each period, and in some cases they were sold out at such an early date that it was impossible for them to compete with the outlets that had the privilege of returning 33⅓ per cent of the number of copies they ordered.

The firms held that this practice of the Doe Publishing Company violated sub-section (e) of section 2 of the Clayton Act as amended by the Robinson-Patman Act.

QUESTIONS

1. On what basis may a firm grant different services or facilities to various outlets?
2. Does the Doe Company have the right to arbitrarily set up different classifications for its outlets?
3. What is the significance of these classifications in terms of the services which may or may not be offered?
4. Did the Doe Company violate the Robinson-Patman Act by the above practice?
5. What recommendation would you offer to the Doe Publishing Company?

The Hilmar Cosmetic Company — 91

STUDYING THE USE OF A P.M.

For many years, the Hilmar Cosmetic Company of Chicago had manufactured an extensive line of cosmetics, including lipsticks, deodorants, face powders, rouges, and hand creams. It followed the usual

sales promotional tactics of the cosmetics trade, doing relatively little space advertising in several of the women's magazines and spending most of the advertising and sales promotional budget on advertising allowances and P.M.'s for retail sales people. Before the passage of the Robinson-Patman Act, it had paid the full salary of a saleswoman in the cosmetics and toilet goods department of leading department stores with the understanding that the saleswoman so employed would make every effort to sell Hilmar goods.

Only the larger stores were so favored, and the practice fell under the prohibition of the Robinson-Patman Act, because the inducement was not offered on proportionately equal terms to all customers of Hilmar. When the so-called "hidden demonstrators" were given up, Hilmar increased its P.M.'s to 5 per cent of the retail price of all Hilmar merchandise sold by each saleswoman. A "P.M." is an extra commission or bonus offered to salespeople for the sale of particular brands or types of merchandise. The derivation of the term is not clear, but it is often called "push money" or "premium money."

In 1951, the Federal Trade Commission banned the practice of allowing retail sales personnel P.M.'s by cosmetics manufacturers unless the employers of the salespeople were fully informed of the arrangement and unless the salespeople wore some sort of insignia (possibly a ribbon, or other sign) indicating to the shopping public that the salespeople were retained by the specific manufacturer to represent him. In the language of the order, it was an unfair trade practice to make any payment to salespeople "with the capacity and tendency or effect of thereby causing the purchasing or consuming public, when making purchases of such products, to be misled or deceived into the erroneous belief that such clerk or salesperson is free from any such special interest or influence, or is not so subsidized or paid by such member."

The fact that the saleswoman behind the cosmetics counter of a good-sized department store might be receiving P.M.'s from a dozen or more different manufacturers made the "tagging" procedure virtually impossible. Moreover, many stores offer P.M.'s to their own sales personnel for pushing the sale of particularly high-margin merchandise.

In November, 1953, the Federal Trade Commission reversed its stand, and offered to revise its Code for the Cosmetics and Toilet Goods industry. Under the more liberal interpretation of the Federal Trade Commission, P.M.'s could be offered, provided the employers of the salespeople receiving them knew of, and approved the arrange-

ment, provided no such arrangement "unduly or intentionally" hampered sales of competing products, and provided the arrangement was offered on proportionally equal terms to sales personnel or competing retail establishments.

When the Federal Trade Commission announced the liberalization of its restrictions, the sales manager of Hilmar Cosmetics Company urged an immediate resumption of the P.M. offer, stating that it was an established custom of the trade, followed by all Hilmar's major competitors, and that it was necessary if Hilmar wanted to maintain its market position. On the other hand, the president argued that, if all competing firms offered the same inducement, the benefit of the P.M. was canceled for all of them, and it merely meant a lower price for the industry. He suggested that the company consider increasing consumer advertising instead of resuming P.M.'s.

QUESTIONS

1. How important is the use of a P.M. in merchandising cosmetics?
2. Is the fact that competing firms offer this inducement important enough to force Hilmar to use it also?
3. What are some of the advantages and disadvantages of the use of P.M.'s?
4. What are some of the legal implications of the Federal Trade Commission's decision?
5. What policy would you recommend that Hilmar follow?

Classe Specialty Company — 92

PRICING UNDER THE ROBINSON-PATMAN ACT

The Federal Trade Commission, upon the request of various retailers in Illinois and Missouri, decided to investigate the operations of the Classe Specialty Company to determine if the company had violated the Robinson-Patman Act.

The Classe Specialty Company is engaged in the business of manufacturing and selling crackers, wafers, pretzel sticks, mixes for pie crust, biscuits, bran and corn muffins, fruit cake, and certain related products. In the early 1930's a major portion of the total sales was in bulk, but by last year, approximately 90 per cent of total production

was represented by packaged goods. The packaged goods are all labeled with the specific brand names of the company.

Products are sold by Classe's own sales organization to chain stores, grocery stores, and other food stores. No formal contracts are made with customers for the sale of products, other than upon salesmen's order blanks, which, when completed, are forwarded to the company's office for acceptance.

The company sells throughout the states of Illinois, Wisconsin, Missouri, and Iowa and has limited distribution in Michigan, Minnesota, and Indiana. The plant and home office are located in Chicago, where the company owns a modern brick and self-contained factory building with railroad siding facilities. The building is equipped with five 200-foot single traveling band ovens, together with mixing, sandwiching, and packing equipment.

Classe granted its salesmen a great deal of authority in quoting prices and allowed them to lower prices in order to secure new accounts, provided that by so doing competition was not lessened.

The salesmen were kept abreast of any changes in the price lists through a series of monthly meetings and a weekly sales bulletin in which other general information was included.

Because of Classe's policy, variation in prices among retailers occurred. A number of these cases were called to the attention of the Federal Trade Commission, so that in 1954 the Commission began to study the complaints. The following variations were among those listed:

1. In November, 1952, a salesman for Classe sold 100 fruit cakes to the Johnson store in Joliet at $1.38 per cake. The day he made the sale to Johnson, he called on the Ferguson store in the same city. Mr. Ferguson informed the salesman that he had a circular from a competitor of Classe who quoted a price of $1.25 for a comparable fruit cake.

The salesman checked the circular very carefully and decided that the fruit cake which the competitor was offering at $1.25 was the same quality and weight as the cake Classe was selling at $1.38. He told Mr. Ferguson that he would let him have Classe's cake for $1.25 also. Mr. Ferguson then placed an order with the salesman for 100 fruit cakes at $1.25.

2. On December 1, Classe's salesman in St. Louis sold the Jepson store 250 five-ounce Plum Pudding Jars at 29¢ per jar. Later in the week when Classe's found that the market for plum pudding had softened, a new price of 24¢ per jar was quoted.

The salesman then sold 200 jars to the Jones store, located directly across the street from Jepson, at the new price of 24¢. When Jepson complained about the reduction and asked for an adjustment to the lower price, Classe refused to make any concession. Classe's policy stated that once the order had been signed by the customer, no price adjustment could be made.

3. Before the Christmas season each year, Classe sent to the retailers a catalog in which were listed all the special Christmas items the company planned to offer. Such products as glazed fruits, hard candy, fruit cakes, plum pudding, and special wafers were included. Prices on all these items were given, and many of the customers ordered directly from the catalog.

Several of the customers, after they received the catalog, requested that the salesmen call on them to give them more information about the variety of Christmas products. When Classe insisted on charging these customers an extra 5 per cent above the price listed in the catalog, a number of the customers complained. Classe contended the company had to charge this extra amount because of the additional service given. On the other hand, the customers stated that because the salesmen who called upon them were the regular salesmen in the territory, no additional service was actually given.

4. In Minnesota, Classe did not sell direct but instead through a wholesaler in St. Paul. When this wholesaler discovered that he was being charged exactly the same prices as were the retailers in the states in which the company sold direct, he entered a complaint. The wholesaler contended that he was entitled to a "functional" discount because of the additional service he was giving to Classe. This wholesaler had an exclusive territory in Minnesota and distributed all Classe's products in the state.

5. On December 5, the company had immediately wired all salesmen when it lowered the price of plum pudding to 24¢. Because of the limited distribution of the company in Michigan it had only one salesman there. It was frequently difficult to contact him and, as a result, the wire which was sent on December 5, did not catch up with him until December 8. In the meantime, the salesman had made sales of plum pudding to 10 retailers at the old price of 29¢. When this was called to the attention of Classe, the company refused to make any allowance to these retailers because of the policy of not making price adjustments once the order had been signed.

6. During the Christmas period, Classe had a cooperative adver-

tising program under which the company agreed to pay a percentage of the retailers' cost of the advertising featuring its products on the basis of the quantity of goods purchased at that season of the year. Under this schedule, the company progressively increased the allowance an additional 20 per cent for each additional $250 worth of Christmas merchandise purchased, up to a maximum of 60 per cent of advertising costs for purchases of $750 or more. The schedule was as follows:

Christmas purchases	*Advertising Allowance*
Purchases under $250.00	None
Purchases from $250.00 to $499.00	20%
Purchases from $500 to $749.99	40%
Purchases over $750.00	60%

Mr. Oswald, a small retailer, complained that the above schedule was discriminatory. He stated that he never could purchase more than $250 to $300 of Christmas merchandise each year, whereas the large chain located in the same section of the city would always buy more than $750.

QUESTIONS

1. Analyze the above situations under the Robinson-Patman Act.
2. In what instances would the Federal Trade Commission be justified in issuing "cease and desist" orders?
3. On what bases might Classe show that its actions in each case did not lessen price competition?
4. For the best interest of society, to what extent should the Federal Trade Commission go in limiting such activities as those listed above?

Hanover Pharmacal Company — 93

ANALYZING A MANUFACTURER'S POSITION UNDER FAIR TRADING

In 1948, the Hanover Pharmacal Company, for many years manufacturers and distributors of pharmaceutical products sold largely to prescription druggists as ingredients for prescriptions, decided to

enter the field of branded merchandise. The executives of the company planned to sell not only precompounded prescriptions, which would rarely reach the consumer under the company's brand but also a line of household remedies, such as aspirin, cough syrups, lozenges, laxatives, and antihistamines, and a line of items including a dentifrice, shaving creams, face creams, and deodorants.

The company's change in policy had been forced on it by developments in the drug field. Leading manufacturers in the pharmaceutical field had been carrying on extensive research programs that had been the basis of the introduction of new prescription compounds dispensed by druggists without more than a relabeling or repackaging. These various compounds were supported by research reports in medical journals, by clinical studies similarly reported, and by extensive promotional programs—that is, by frequent sales calls on physicians by technically trained salesmen who would explain the clinical results obtained and discuss the conditions under which the compounds might be prescribed. As a result, the physicians were likely to prescribe a precompounded medicine that the druggist did not have to make up from basic ingredients and raw materials. The widespread acceptance of this practice had materially decreased the market for basic chemical and pharmaceutical products.

Pricing and distribution for factory-compounded medicines did not constitute a major problem. If a particular product was accepted by physicians as a result of the promotion done, druggists had to stock it. And, since the consumer did not know its source, price comparisons were impossible. Moreover, since the product was dispensed as the result of a physician's prescription, the consumer was not likely to make an effective complaint about its price.

With respect to the household remedies other than patent medicines and the items of personal care, the situation was entirely different. Here, consumer acceptance based on advertising, or retailer support based on recommendation, point-of-purchase advertising material, preferable counter location, and store display determined market position. In supermarkets, for example, studies have shown that sales of a particular brand of canned goods would drop as much as 50 per cent when stocks were moved from an eye-level shelf to a lower shelf, as long as other popular brands were readily apparent. Thus, the goodwill and active support of retailers were particularly important to Hanover in its drive to popularize its brands.

During 1948-1949 and the early part of 1950, programs of marketing and product research were carried on, and served as the basis for

the selection of a toothpaste that carried a powerful antibacterial agent and a breath-sweetening flavor; a shaving cream carrying the same antibacterial agent, a mouth wash or gargle; and a gentle laxative. Vigorous consumer advertising was launched. Because of the previous sales relationships with drug stores, it proved relatively easy for Hanover salesmen to get at least skeleton inventories in most drug stores, including the various chain drug company stores. No particular problems with pricing developed.

In the summer of 1952, the McGuire amendment to the Miller-Tydings Act was passed, specifically legalizing fair trade contracts with those firms that had not signed them. Immediately, there was a strong insistence on the part of independent druggists all over the country that Hanover "fair trade" its merchandise, or these druggists would either refuse to stock Hanover products or discourage their sale.

The fair trade controversy in the drug field was an old one. During the nineteen-thirties, a number of chain drug firms grew large, and were able, apparently, to operate on a somewhat lower gross margin than the independent druggists. In addition, so-called pine-board drug stores arose—stores that typically did not offer prescription service, operated with a minimum investment in fixtures, and used customer self-service to a high degree. The gross margin requirements of such stores were very low. Price competition in the field of drug store merchandise became very keen. Trade associations in the drug field, as well as those in the book trade, the electric appliance field, and so forth, complained so effectively that the Miller-Tydings Act, legitimatizing state fair trade laws, was passed in 1936. Rather rapidly, all states but Vermont, Missouri, and Texas, and the District of Columbia, passed fair trade laws. Although these laws differed somewhat, they typically allowed a manufacturer to set minimum retail prices for products carrying his brand and to establish these prices through contract with a very small number of retailers. Other retailers, even though they objected to the minimum resale price stipulations and had not signed the contracts, were legally covered by the stipulations.

By the time the Hanover line was attaining some degree of consumer acceptance, fair trade legislation was virtually nonoperative because the United States Supreme Court, in the Schwegmann case, had ruled that the Miller-Tydings Act had not been specific in making permissive enforcement of fair trade legislation against nonsigners of minimum-price resale contracts. But with the passage of

the McGuire Act in 1952, clearing up this omission or ambiguity, it became possible again to enforce fair trade contracts.

Proponents of fair trading maintained that such contracts were necessary to maintain competition. They insisted that large chain stores, because of their greater economic strength, were able to cut prices on a few popular items; independent merchants could not compete unless they followed these price cuts and could not stay in business if they did. Moreover, proponents of fair trade practices indicated that such price cuts were largely deceptive, were "bait and leader" tactics, designed to deceive the customer into thinking that other merchandise was sold at equally low prices, whereas margins on merchandise that was not subject to direct price comparison might be considerably higher than usual. They characterized practices during the period when fair trading was not feasible as done "under the law of the jungle."

On the other hand, opponents of fair trading stated that price competition had been the basis of most of this country's business achievements, and maintained that the inability of more efficient retailers—who could afford to sell at a lower gross margin—to lower price merely protected the inefficient, and drove competition into nonprice channels that were socially costly.

When they were confronted with insistent demands for fair trading, executives of Hanover studied their distribution figures, and found that 38 per cent of their volume on the new products came from the larger chain store firms, most of whom were against fair trading, whereas 62 per cent came from the independent druggists, most of whom were insistent on fair trading. Although they realized that they would lose distribution through the larger firms if they instituted fair trade contracts in those states where fair trading was legal, they believed that they would lose a competitive advantage accruing from freedom from price rigidity. On the other hand, they realized that nearly two-thirds of their sales were coming from the independent druggists, who could—if they were determined to do so—almost completely exclude Hanover from distribution through independent drug stores.

QUESTIONS

1. To what extent does consumer interest depend on price competition between competing retailers?
2. Is fair trading a socially desirable or undesirable business practice?

3. To what extent is fair trading necessary for the survival of the independent merchant?
4. To what extent is it desirable for the manufacturer?
5. As a matter of business policy, should Hanover have instituted fair trade contracts in the states where such contracts are legal?
6. If Hanover executives had believed that fair trading was undesirable as a long-run practice, could they have held out against the pressure of the independent druggists?

The Consumer Protective Guild — 94

HANDLING ADVERTISING CLAIMS

At a time when there appeared to be some increase in price competition in the retail field, a group of merchants in a large midwestern city organized The Consumer Protective Guild, largely to obtain a united front in seeking changes in the city's ordinances. The Guild comprised several department stores, three men's clothing stores selling nationally advertised brands of men's clothing, two jewelry stores that did not stress credit in their advertising, and several furniture stores handling medium- to high-priced furniture. In the aggregate, these firms accounted for a considerable proportion of the retail volume of consumer durable goods and of soft lines in the city.

The ordinance change they sought would prevent retailers in the city from advertising, directly or by inference, comparative price reductions or savings that could not be substantiated by analysis of their operating expenses by an impartial certified public accountant. In the presentation they made in support of their request, they pointed out the following advertising claims, taken from newspaper advertisements, outdoor advertising, and store signs:

1. "Absolutely no charge for credit." (by a credit jewelry firm)
2. "Our upstairs store costs us less. Walk up one flight and get your share of our rent savings." (by a men's clothing store)
3. "We can sell for less because we spend no money on advertising." (by a chain of furniture stores)
4. "Direct from manufacturer to you—no middleman's profit in our prices." (by a chain of men's clothing stores)
5. "We give you more for your old car." (by a used car dealer)

The Guild maintained that these and similar claims were misleading in that competition forced reasonably uniform operating margins

in each classification of retail trade, and that such advertising claims merely tricked consumers into buying inferior merchandise under the assumption that it was of good grade and quality.

QUESTIONS

1. Do you believe the examples of advertising quoted are misleading to the consumer?
2. Should this kind of advertising be allowed?
3. Whose responsibility is it to limit the broad general claims which advertisers will frequently make?
4. Can a consumers' Protective Guild have much influence in controlling such advertising?
5. If you were operating a store in a city where such a Guild was formed, would you become a member of it?
6. Are you in favor of the ordinance change the Guild recommended?

*The Borax Combination** — 95

EVALUATING THE MONOPOLISTIC POSITION OF A COMBINATION

Borax Consolidated, Ltd., Pacific Coast Borax Company, United States Borax Company, American Potash & Chemical Corporation, Borax and Chemicals, Ltd., and the Three Elephant Borax Corporation are charged with conspiring to violate the Sherman Antitrust Act by monopolizing virtually the entire world supply of borax.

Crude borates are the chief source of borax. Approximately 95 per cent of the world's deposits, active and inactive, of commercially valuable crude borates is located in California and the southwest section of Nevada; all the world's deposits of kernite are located in Kern County, California. Although there are approximately 60 known crude borates in the world, only four contain sufficient boron oxide to warrant commercial exploitation. These are kernite, tincal, colemanite, and ulexite.

* This fact situation has been taken in digest form from the Civil Action No. 23690-G of the District Court of the United States for the Northern District of California, Southern Division.

The commercial value of borate ores is largely determined by the boron oxide content, which averages 50 per cent in the best crude ore, kernite. Colemanite is a calcium borate, tincal and kernite are sodium borates. Ulexite is a mixture of calcium and sodium borate. Kernite, the most important of the borate ores, is found only in the United States; all the known United States deposits of kernite are now owned by Borax Consolidated, Ltd., or its subsidiary, United States Borax Company.

The other source of borax is lake brine. More than 99 per cent is extracted from Searles Lake, located in the Mojave Desert in San Bernardino County, California. Approximately one ton of borax is obtained as a co-product of two tons of muriate of potash. This process produces no crude borate. Less than one per cent is extracted from Owens Lake, Inyo County, California.

Uses

The properties of borax to which its principal uses are related are its strong fluxing ability (that is, its power to promote the fusion of metals or minerals), its mild antiseptic properties, and its mild alkaline properties (which make it useful as a buffering agent to neutralize acids or bases without changing their original acidity or alkalinity). Borax and boric acid have many uses: They are important ingredients in the manufacture of enamels for coating such metalware as bathtubs, sinks, and plumbing fixtures; in the manufacture of glass, borax and boric acid act as fluxes to promote the distribution of the other constituents of the glass; large quantities of borax and boric acid are used in the production of glazes for tiles, earthenware, and china; borax is used in aviation instrument panels and in the manufacture of explosives, particularly magnesium bombs; as an abrasive, boron carbide is second in hardness only to the diamond, and is also an economical source of boron in metallurgical processes, both as a source of boron for alloys and as a powerful deoxidizing agent; borax and boric acid are also widely used in pharmaceutical preparations and cosmetics because of their mild antiseptic and detergent properties.

Control of industry

Since 1929 the world trade in borax and borax products has been completely dominated and controlled by Borax Consolidated, Ltd., and the American Potash & Chemical Corporation and their subsidiaries. The former controls 95 per cent of the world production of borax

from crude borates, including 100 per cent of the world production from kernite; the latter controls approximately 90 per cent of the world production of borax derived from lake brines.

Conspiracy to monopolize

The complaint specified that, since 1929, the six companies conspired to monopolize the interstate and foreign trade and commerce in the mining, processing, manufacture, distribution, and sale of crude borates, refined borax, and boric acid, which conspiracy was in violation. It went on to state that they agreed:

1. to acquire control of approximately 95 per cent of the world's known deposits of crude borates, including approximately 100 per cent of sodium borate (kernite and tincal) deposits.
2. to acquire by lease or purchase approximately 90 per cent of the world's known lake brines from which borax may be extracted.
3. to purchase refining facilities of all competitors who also own deposits of crude borates.
4. to dismantle and close all refining facilities and to close all mines purchased from competitors who work deposits of crude borates.
5. to withhold from the market all colemanite ore, where such ore would compete with kernite.
6. to permit two United States concerns to produce, refine, buy, and sell approximately 5 per cent of the world's supply of refined borax and boric acid on terms dictated by the companies with respect to customers and markets.
7. to refuse to sell crude borates, refined borax, and boric acid to customers of any competing company.
8. to refuse to sell crude borates, refined borax, and boric acid for export or resale.
9. to refuse to sell refined borax for packaging by independent distributors.
10. to restrict the selling and distributing of packaged borax to Borax Consolidated, Ltd., or its subsidiaries.

Companies' rejoinder

In answer to the complaint, the six companies pointed out that there was no coercion on their part in dealing with other manufacturers and distributors. Because the product was standardized and there were only a few sellers, they were well aware of all the influencing marketing factors.

At the same time, it was their belief that new deposits of borates

would be discovered under the pressure of increasing demand. Furthermore, the group brought out that boron is one of the first seven or eight most abundant elements in the earth and that lake brines exist in Lake Inder in Russia, in several lakes in Mexico, and in other sections of the world. There are some deposits in Turkey and in South America, where labor is cheap, but the cost of exporting is high.

The companies also emphasized that a break-up of the present properties would lead to mining and extraction waste—uneconomic and unwise from the standpoint of geology and natural resources. In the long run, prices to the consumers would be higher.

QUESTIONS

1. In the case of a standardized product, such as borax, is the price charged by the various producers likely to be uniform?
2. Under the following conditions, what would be the effect upon prices of an agreement among producers of borax not to solicit each other's customers:
   (a) No agreement to refuse to accept business of another's customers voluntarily offered?
   (b) No restraint upon the solicitation of new business?
   (c) A rapidly expanding demand whereby domestic consumption increases from 75,000 tons to 150,000 tons?
3. What effect would price fixing, allocation of markets, quotas, and the like in foreign countries have upon prices charged in the United States for borax?
4. Since borax may be produced from three original sources (brines, deposits, or fumaroles), can one producer who controls all the mineral deposits have a monopoly or control of the market when he has no control of the other sources?
5. Would the control of borax deposits without control of the refineries be adequate to regulate the price in the consumer's market?
6. Do you feel that action should be taken under the Sherman Antitrust Act? If so, what?

Mrs. Ethel Agnew — 96

EVALUATING THE RIGHTS OF A CONSUMER

Last month, a follow-up man of the Del Portrait Studio delivered to Mrs. Ethel Agnew of Springfield, Massachusetts, a picture of her little

girl. The picture was presented in an unusual convex frame, and the salesman informed her that the price of the frame was $20.

Mrs. Agnew had taken advantage of an attractive offer made to her several weeks before, and was quite shocked to learn that she was supposed to purchase a frame. The offer that she had accepted was written in the following manner:

Del Portrait Studio

Chicago, Illinois

By paying our representative $2.95 for this Certificate, the undersigned will receive one of our $20 HIGH-GRADE PAINTINGS in the most pleasing size and in the NEWEST DESIGN, same as painting shown.

This extraordinary offer is made for advertising purposes only, to introduce paintings of a higher grade, hand-finished by a talented artist; therefore, to assure us of a lasting advertisement, this offer is conditional in that the painting must be framed within a reasonable length of time.

Our field artist will call on you with a sketch of your photograph to get full particulars for finishing; at that time, Del's mountings of the newest design will be submitted for your selection. In the event a mounting is not selected, the sketch will be left with you until you select a mounting elsewhere; then the painting will be finished at no additional cost. Countermands not accepted. Verbal agreements not recognized.

ALL PHOTOGRAPHS RETURNED
WITH FINISHED PAINTING

ALL WORK STRICTLY GUARANTEED

THIS OFFER CANNOT BE EXTENDED
FUTURE PRICE $20 AND UP

FORM OF CERTIFICATE

To introduce Del portraiture.

This certificate entitles M_____ to one Del portrait, 10 by 16 inches, finished in color. This offer is conditional in that a certificate holder must purchase from us the frame for this portrait.

Our representative will visit you shortly to demonstrate the black and white outline that is used as a base for the portrait. He will also show a finished Del portrait and a very fine assortment of appropriate frames for your selection. A deposit of aproximately one-half of the purchase price will be required at that time, the balance to be paid on delivery of frame and portrait.

Your original photograph will be carefully handled and returned to you promptly.

Del Portrait Studio

By _____

When Mrs. Agnew insisted that she had not ordered a frame, the salesman showed her the above contract that stated, "This offer is conditional in that a certificate holder must purchase from us the frame for this portrait."

He went on to explain that this oil portrait of her daughter would not hold its colors nor would it be of any value unless it was framed. She had agreed to protect and exhibit the portrait, and consequently under the agreement was obligated to purchase a frame.

Mrs. Agnew still hesitated to give the salesman the money. However, when he told her that the frame was gold-plated and contained an unbreakable imported glass front that would make the portrait of her daughter moisture proof, she gave him the $20.

In the evening, she and her husband examined the portrait very carefully; both of them were disappointed with it and with the frame and decided to ask one of their photographer friends to look at it.

After careful examination, he informed them that the frame was not gold-plated, but was made of wood colored with a yellowish substance that gave the appearance of gold; the glass front was not unbreakable and, in his opinion, was of domestic origin. Furthermore, it was not moisture proof.

He said that the portrait was not produced by hand in oil colors. Rather, it was a quickly made photographic reproduction, colored by powdered pigments that were sprayed on through the use of a mechanical airbrush and compressed air.

He estimated that the tinted photograph probably cost the Del Portrait Studio about $1.30 to make and that the frame was worth about $1.25.

QUESTIONS

1. What action should Mr. and Mrs. Agnew take? Should they report this situation to Del Portrait Studio in Chicago, the Better Business Bureau, or some other agency?
2. Is there any way in which the consumer can protect herself from situations of this nature?
3. Under terms of the contract was Mrs. Agnew obligated to buy a frame from the Del Portrait Studio? Does the fact that the statements in the advertising literature differ from the terms of the contract have any effect upon her obligation to purchase a frame?
4. What could the Federal Trade Commission do in this case?

Special Hosiery Company — 97

PRETICKETING MERCHANDISE

Special Hosiery Company, a hosiery manufacturer, followed the policy of preticketing its merchandise at retail prices that were substantially higher than the prices at which the hosiery was sold in the retail stores. On an average, the hosiery was sold 5 per cent below the preticketed prices.

Special Hosiery prelabeled the hosiery on this basis to provide retail dealers with the option of promoting the hosiery on a "price basis."

Studies in the market had indicated that:

a. Retail dealers wanted the hosiery marked on this basis so that they could mark down the product as a special for sales.
b. The public preferred preticketed hosiery that could be purchased at a discount.
c. The greatest volume could be obtained on this basis.
d. It was one of the best ways for Special Hosiery to meet the competition of the large national manufacturers of hosiery.

QUESTIONS

1. Is there any requirement that the average retail price must be placed on a preticketed item?
2. If the stores generally sold the hosiery at the prices marked, except for special sales, would this make any difference?
3. How might Special Hosiery require the retailers to sell at the preticketed price?
4. Should Special Hosiery continue to follow this policy? Why or why not?

Pirna Oil Company — 98

EVALUATING EXCLUSIVE CONTRACTS

Pirna Oil Company, a manufacturer of a variety of petroleum products, denied Federal Trade Commission charges that its contracts

with its independent retail service stations require exclusive dealing or that these contracts threaten to lessen competition.

The Commission had charged Pirna Oil Company with requiring its dealers to refrain from handling competing products in violation of Sec. 3 of the Clayton Act, which prohibits such arrangements where the effect may be substantially to lessen competition or to create a monopoly.

The Commission cited several types of contracts that Pirna had used that required dealers to buy all products from the Pirna organization.

Denying this contract is unlawful, the president of the Pirna Oil Company maintained that it was necessary to assure proper quality and standardization of products on which the prestige of the Pirna name rests and to develop and compete for public acceptance. The president contended that this type of contract was necessary if his company was to meet the competition of larger oil companies.

The president also maintained that Pirna actually developed a "new area of competition," bringing other sellers into the market and promoting competition with established products. The president further emphasized that in the market Pirna's annual sales and net worth are inconsequential when compared with the sales volume or net worth of any of the larger companies with which Pirna competed.

He stressed that, although its current contract calls for the dealers to buy their products from Pirna, there are no provisions for cancellation of the agreement if a dealer fails to comply with this requirement; rather, he may, at the option of the Pirna Oil Company, be reduced from an exclusive to a nonexclusive basis.

The president maintained that the contract was required to protect the Pirna's trade name and good will and the public interest. By this requirement, the public is assured that the products purchased at a Pirna Station will always be of high quality and guaranteed by the company.

It was the president's opinion that, because of the myriad of types of products a station might handle, it was costly, uneconomical, and impracticable for a retail service station to handle more than one brand.

QUESTIONS

1. When may a manufacturer use exclusive contracts with its dealers?

2. Does the size of a company have any effect on whether or not it may use exclusive contracts?
3. Evaluate the points that the president of Pirna gave as to why the company should be allowed to continue to use exclusive contracts? Are these economically sound?
4. Should Pirna be allowed to continue to use exclusive contracts with its retail stations?

*Dairies, Inc.** — 99

LEGALITY OF A MERGER

Public interest and the fostering of competition are among defenses raised by Dairies, Inc., to charges by the Federal Trade Commission that the firm's acquisitions in the dairy industry violate the antimonopoly laws.

Answering Commission charges that the impact of the company's consolidation was to injure free competition, the company maintains that all but one of the acquired concerns found it impossible to continue in business. The firm also argued that the acquisitions effected economies benefiting the consumer and that the firm's actions "were in keeping with both the letter and spirit of the American free enterprise system . . ."

The Commission's complaint charged the firm with acquiring 30 competitors in interstate commerce in violation of the antimerger law, Sec. 7 of the Clayton Act. The total number of acquisitions since 1951, the complaint alleges, is 39. Their acquisition, the complaint alleged, is part of the systematic elimination of competition constituting an unfair method of competition in violation of Sec. 5 of the FTA Act.

The firm admits acquiring 14 interstate concerns but denies that these purchases violated the law. In almost every instance, the firm states, the concerns were doing business in areas not previously served by it. "In no instance did respondent remove or 'buy out' a competitor or discourage competition. . . ."

All of the acquisitions were aboveboard, the firm continues, and resulted in economies that made possible reduced or steady prices in

* Federal Trade Commission Summary No. 12/April 2, 1956, Washington 25, D.C.

the face of inflation as well as made possible improved quality of products.

Thirteen of the acquired firms, the company declared, were unable to continue in business because of economic conditions or because of the age and health of owners. The acquisitions saved many employees from unemployment and financial loss.

The firm maintains that the acquisitions were not monopolistic in view of the thousands of dairy product firms in the United States. At least three of these are larger and the Dairies' gallonage is an insignificant part of the total volume of the industry.

QUESTIONS

1. What determines whether or not a company may be permitted to purchase competing firms?
2. Are the points presented by Dairies, Inc., economically sound? Legally sound?
3. Should a company be allowed to expand through mergers as long as it passes on any savings realized to consumers?
4. What bases are used by the F.T.C. to decide that a company has violated the antimonopoly laws?

Peronne, Inc. — 100

CONSIDERING PLACE OF ORIGIN

Peronne, Inc., of New York was charged by the Federal Trade Commission with representing that its domestic perfumes and colognes are made in France. The Commission also charged the company with misrepresenting the regular price of its products and with simulating nationally advertised perfumes and colognes.

The Commission's complaint alleged that in advertising, in packaging, in the shapes of bottles, and in simulated trade names, Peronne attempts to represent its products to be brands that enjoy national acceptance and preference. Peronne's distribution was limited to 6 eastern states.

Deception as to the origin arises from the use of French names or words such as "by Cyr" and "by Beuve." Although the Commission

stipulated that some imported ingredients were used, the major portion of the ingredients was domestic.

QUESTIONS

1. Is it illegal for a company to lead the public to believe it is a national firm when it is only selling in 6 states?
2. To what extent is a company required to let the public know it is a domestic firm?
3. May a company use "French" names on its products when these products are produced in the domestic market? What limitations are placed on this technique?
4. What percentage of the ingredients would have to come from France for a company to advertise that it is selling an imported perfume?

FIFTEEN

International marketing

Massey-Ferguson — 101

DECIDING ON POLICY FOR CANADIAN COMPANY

Massey-Ferguson, Ltd., a leading international manufacturer of farm machinery and one of Canada's largest companies, was faced with the problem of deciding whether or not it should change its product policy and conservative sales strategy.

Mr. Duncan, the former chairman of the Board and President of Massey-Harris-Ferguson, had made himself almost as much a diplomat as a businessman, and his executives included cultural conservative multilingual men and long-service implement industry men to run Massey-Harris-Ferguson's 16 owned or leased plants and to sell its products. One of his reasons for operating on this basis stemmed

from the fact that of the company's $369,000,000 sales, more than half were made outside of North America.

Although Massey-Ferguson's big United States competitor, International Harvester, had diversified into power equipment and trucks, Massey-Ferguson had not extended its line of products other than to produce office machinery in a subsidiary acquired through the purchase of H. V. McKay Massey Harris of Australia. At the same time, profit margin on farm implements decreased from about 5 per cent to 2.5 per cent of sales.

During the presidency of Mr. Duncan, the tractor and agricultural product lines of Ferguson were added to those of Massey-Harris and the name of the Company was changed to Massey-Harris-Ferguson, Limited. Massey-Harris-Ferguson's competitors had also shifted to more aggressive selling throughout the world's markets.

As an example, International Harvester Company of Canada launched a two-fold program aimed at augmenting its domestic sales and opening up markets overseas for its agricultural implements.

In a drive to capture the Canadian small-farm market, the company signed a contract with International Harvester of Great Britain for import of small diesel tractors. Yearly deliveries are expected to run into several million dollars. International is also spending $1,000,000 to expand its dock facilities to handle future shipments. The company plans to manufacture implements that can be used with the small British tractors, which require equipment of lighter weight and costs less than standard tractor equipment.

QUESTIONS

1. What approach would you recommend that Massey-Ferguson use in selling its farm machinery outside of Canada?
2. What sales strategy should the company use in selling in the Canadian market?
3. Indicate the steps you would recommend that the company should follow in determining whether or not to diversify its product line.
4. What channels of distribution should Massey-Ferguson use in its international markets?

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